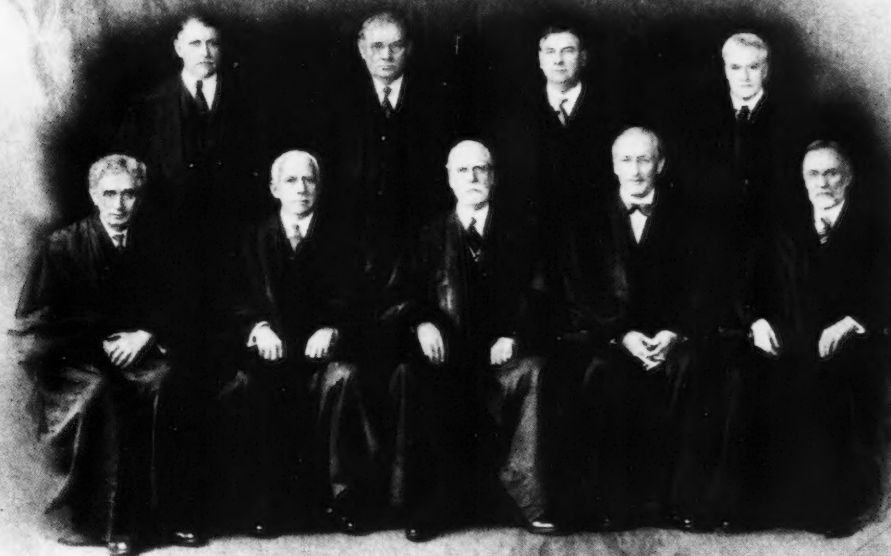


BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION



UNITED STATES SUPREME COURT JUSTICES

NOVEMBER 1934

Bank Owners

Canada's Central Bank

Russia's Central Banks

Interest Rates Seek Lower Level

SOME *Facts*

ABOUT THE



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"Puritans Going to Church", by Boughton. Courtesy New York Public Library

RECENT interesting magazine articles are: "Paying the New Deal Bill", by Raymond Clapper, *October Review of Reviews*; "Business on the Dole", by H. Parker Willis, *October Current History*; "Britain Consolidates Recovery", by Isaac F. Marcosson, *Saturday Evening Post*; "Business and Government: Toward a Common Ground", by A. A. Berle, Jr., *November Scribner's*; "The Tyranny of Greed", by Henry A. Wallace, *Collier's*; "The Future of the N.R.A.", by Donald Richberg, *October Fortune*; "The Bogey of Regimentation", by Duncan Aikman and Hawley Jones, *November Harper's*



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NOVEMBER 1934

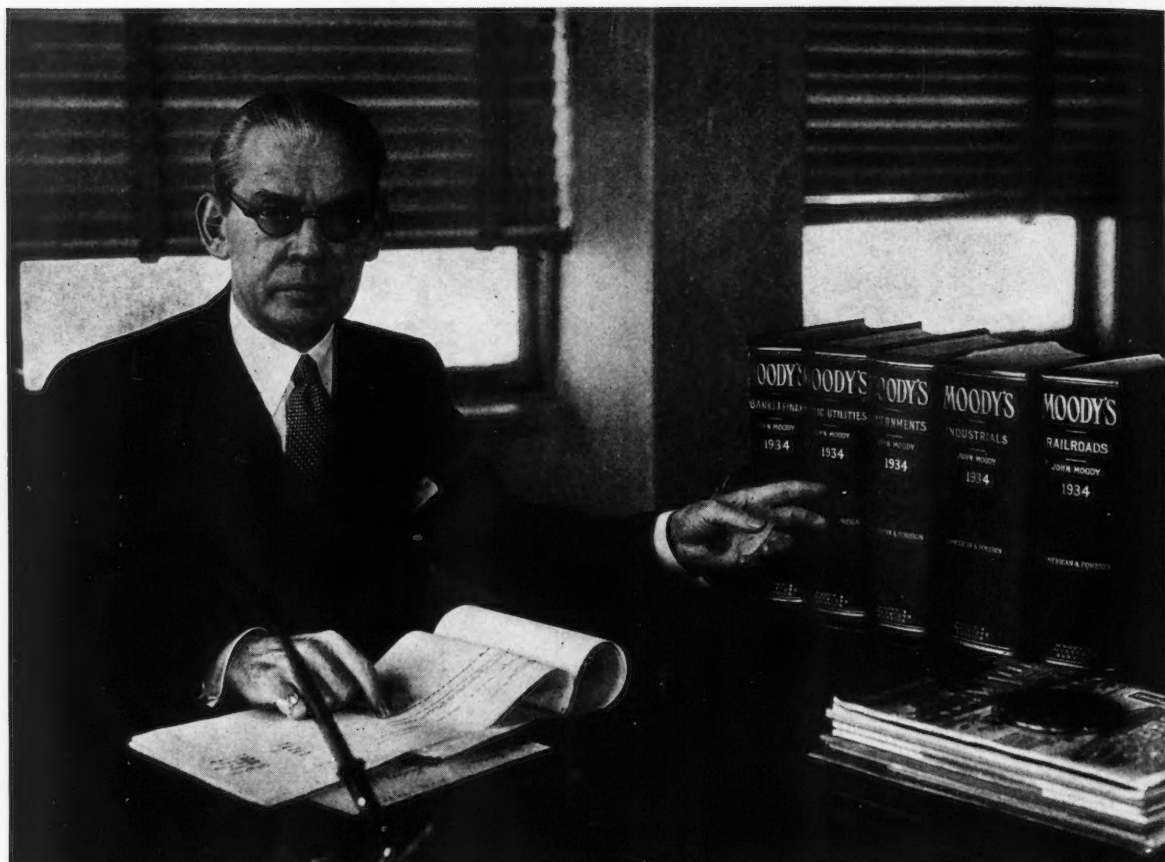
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MINUTES

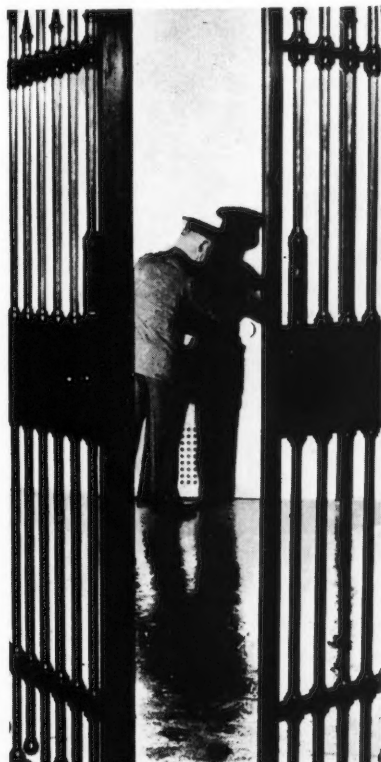
Interest on Savings

All chartered banks in the Dominion of Canada are reducing the interest paid on savings deposits to 2 per cent as of November 1. A similar reduction will be made by all other banks as of December 1, while it is intimated that some of the important loan and trust companies will make a further reduction of $\frac{1}{2}$ of 1 per cent at the beginning of the year. It is doubtful that such blanket reductions of rates to apply to all parts of the country are practicable in the United States, but the trend of interest outlays by banks on deposits is certainly all in one direction.

The Dollar

The ups and downs of the international value of the dollar based upon the

In the new vault system at Washington, the Government is storing part of its monetary silver supply, although Federal assay offices are holding most of the metal



WIDE WORLD

least breath of suspicion or hint of inflation is a continual reminder that the most fundamental matter in American finance and business is yet to be settled. Most talk on the subject merits heavy discount; still, the facts of the situation are as they are.

Silver

Some time previous to the nationalization of silver Secretary Morgenthau intimated that not all of the agitation for the nationalization and general rehabilitation of the white metal was disinterested; but the general public was never enlightened as to who and what were the interested elements in the movement.

Silver Senators and Representatives have generally been blamed for the manner in which the campaign to dilute the currency by the injection of 25 per cent of silver in the so-called metal base of the monetary circulation has been carried on, but at present it looks as though Treasury officials were as anxious to push silver as any of the politicians among silver producing states.

Up to October 5 the amount of silver received by the Treasury under the nationalization order was only 93,444,393 fine ounces. Other silver, of course, may have been secretly purchased abroad. The reported nationalization supply is about 10,000,000 ounces less than the Treasury was supposed to have at the end of its buying campaign previous to nationalization and is more than 1,200,000,000 ounces short of the 25 per cent of the total metal base for the currency announced as the object of the entire undertaking.

Put the matter another way and it is plain that the Government must draw upon the silver stocks of the rest of the world for about a billion and a quarter ounces of fine silver to carry out its campaign. Unavoidably, of course, it will take gold or its exchange equivalent to pay for this silver, if, as and when obtained, which means that the country is weakening itself in international financial relations every time it buys an ounce of silver abroad.

Perhaps the most exasperating feature of the matter is that now, when it has been fully demonstrated by China's own protests that forcing up the price of silver is destroying instead of building trade with silver-using countries,

protests are met with the contention that, after all, the monetary policy of the United States is the United States' own business and its effect upon the economic condition of other countries is no concern of ours.

It has long been evident that most of the silver campaigners had little interest in the foreign trade of the United States or the effect of their silver policy upon it. Much less have they given consideration to the fundamental soundness of the American currency system.

Raising the Cash

For the seventh consecutive time up to mid-October the Treasury borrowed more money on Treasury bills than maturing obligations of this variety called for, thereby increasing its loans at

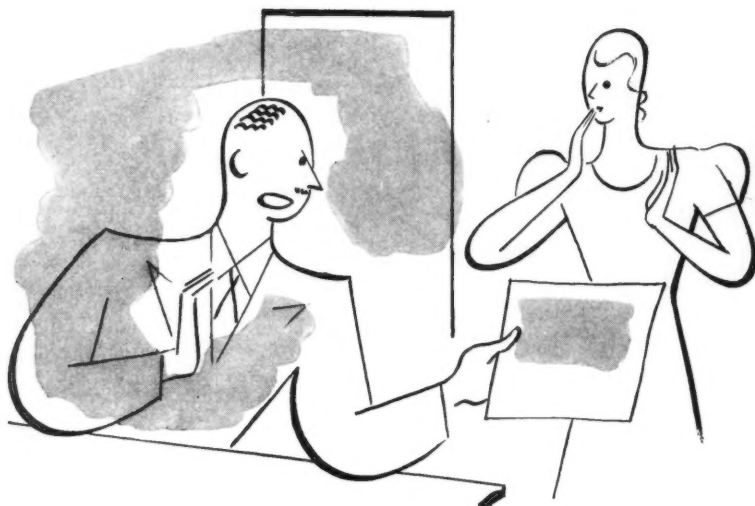
Chief Justice Hughes and the Supreme Court will review lower court cases on the suspension of gold payments and the restriction of petroleum production under the oil code



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5

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SAN FRANCISCO

The President's picture behind the speaker's rostrum at the A. F. of L. convention

a nominal rate of interest but also building up an already top-heavy structure of short term borrowings from the banks.

From the standpoint of the latter the system has the merit of permitting employment of funds in a nominal way with no possibility of loss on their investment. Superficially the plan works well. Fundamentally it is laying up trouble for the future in the necessity of borrowing funds on long term from a public which may not be so willing to lend in the future as at the present time.

*

Ready Money

Cash in the Treasury continues to exceed \$2,000,000,000, which is more than three times the amount the Government ever had on hand for many years previous to the devaluation of the dollar. As a margin for taking up the slack in any financing operation, the money may come in very handy, but the better plan would seem to be to see to it that there is no slack by following policies which give confidence to investors in the Government's obligations.

*

Sentiment

Eugene R. Black, former Governor of the Reserve Board, is of the opinion

BANKING

that business in the United States is better than business sentiment, and there is something in the idea. Business sentiment, however, often depends less upon immediate realities than a judgment of the future based upon the past, and the recent past has not been altogether free of things which disturb confidence.

Diet

The Bureau of Agricultural Economics predicts that one result of the recent drought will be a shift in the diet of the American people by next Spring—from pork and beans to beans without pork, for example. The Government dietitians also advise the use of more cabbage. Certainly there will be more cabbage than caviar. Meat supplies are expected to be off 12 per cent; butter and cheese off 7 per cent; prices up accordingly. Fortunately there seems to be no prospect of a necessity of resorting to war bread or sugar in little envelopes.

Price Fixing

Neither the President nor Donald Richberg seems to think much of price fixing as a means of industrial recovery, and in this the vast majority of the American people agree. It is quite possible, however, that the elimination of price fixing will entail the elimination of other features of the N.R.A., until the Blue Eagle will have lost too many feathers to be able to fly.

Jobs

At the beginning of October approximately 82,000 more people were on the civil service payrolls of the United States than on June 30, 1932, and on January 1 next some 25,000 more will start to take a farm census of the country.

Defense

Anent the preliminary disarmament conference in London and talk of heavy expenditures for armament it may be noted that in the first quarter of the current fiscal year only one-twelfth of the total expenditures of the Washington Government were for charges for the defense services of the country—not that we spend less for defense but that we spend more for other things like relief, public works, the A.A.A. and what not.

Benefits

Benefit and rental payments to farmers under the A.A.A. during the current year and up to January 1, next, are expected to amount to \$688,000,000, of which \$406,000,000 had been paid out up to October 6. Whether these payments will affect the congressional elections may be an important question from a sociological point of view, but a distinctly practical phase of the matter is that the \$505,000,000 of processing taxes collected up to October 6 represents taxes which the Government could use to good advantage for the normal processes of administration.

SHANGHAI

In answer to Chinese remonstrances, Washington promised as gentle manipulations as possible in its silver program. Below, coolies loading silver for shipment to this country, adding to China's own monetary difficulties



November 1934

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Common Stock Dividend

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(Signed) KARL E. HUMPHREY,
Treasurer.



THE CHASE NATIONAL BANK

OF THE CITY OF NEW YORK

Statement of Condition, September 29, 1934

RESOURCES

| | |
|--|----------------------------|
| CASH AND DUE FROM BANKS | \$ 318,001,322.66 |
| U. S. GOVERNMENT OBLIGATIONS, DIRECT AND FULLY GUARANTEED | 491,818,627.70 |
| STATE AND MUNICIPAL SECURITIES MATURING WITHIN TWO YEARS | 70,754,861.34 |
| OTHER STATE AND MUNICIPAL SECURITIES | 43,703,826.69 |
| OTHER SECURITIES MATURING WITHIN TWO YEARS | 19,985,412.23 |
| FEDERAL RESERVE BANK STOCK | 8,160,000.00 |
| OTHER BONDS AND SECURITIES | 87,605,275.70 |
| LOANS, DISCOUNTS AND BANKERS' ACCEPTANCES | 638,363,160.75 |
| BANKING HOUSES | 40,317,016.24 |
| OTHER REAL ESTATE | 1,562,857.34 |
| MORTGAGES | 4,138,020.72 |
| CUSTOMERS' ACCEPTANCE LIABILITY | 42,160,075.05 |
| OTHER ASSETS | 8,320,163.45 |
| | <u>\$ 1,774,890,619.87</u> |

LIABILITIES

| | |
|--|----------------------------|
| CAPITAL—PREFERRED | \$ 50,000,000.00 |
| CAPITAL—COMMON | 100,270,000.00 |
| SURPLUS | 50,000,000.00 |
| UNDIVIDED PROFITS | 15,803,371.39 |
| RESERVE FOR CONTINGENCIES | 17,221,803.79 |
| RESERVE FOR TAXES, INTEREST, ETC. | 1,018,067.13 |
| DEPOSITS | 1,466,322,190.61 |
| CERTIFIED AND CASHIER'S CHECKS | 22,640,290.97 |
| ACCEPTANCES OUTSTANDING | 44,936,315.20 |
| ITEMS IN TRANSIT WITH BRANCHES | 1,364,271.44 |
| LIABILITY AS ENDORSER ON ACCEPTANCES AND FOREIGN BILLS | 554,153.57 |
| OTHER LIABILITIES | 4,760,155.77 |
| | <u>\$ 1,774,890,619.87</u> |

This statement does not include the statement of The Chase Bank
with branches in Paris and the Far East or of any organization
other than The Chase National Bank of the City of New York.

Prices

Retail merchants in various parts of the country are complaining that manufacturers are holding up prices unduly and are attempting to force them to deal in higher quality merchandise which consumers are unable to buy. Manufacturers are using the scarcity of merchandise in many lines as excuse for their attitude. Back of this state of affairs are the static situation created by the interference of codes with normal business processes and the uncertainties hanging over business generally. There is abundant reason why the authorities in Washington are turning from experimentation to practical aids to business.

Corn

The Department of Agriculture's crop reporting board announces that the corn crop of the current season will amount to 1,416,772,000 bushels, which seems a lot until it is compared with the yearly average of 2,516,000,000 bushels for the previous five years. Estimates of wheat production have gradually increased from month to month in spite of the drought. The estimate on July 1 was 484,000,000 bushels; on October 1, 496,982,000 bushels which, with the carry-over, will feed the country. Morals aplenty can be drawn from these figures but perhaps it is enough to conclude that figuring on crop restrictions next year will be done with more care and less confidence in departmental infallibility.

Charges

One of the Government's contentions is that the original conception of N.R.A. was in the 1933 convention of the Chamber of Commerce of the United States, while it was business with a capital "B" which demanded that the President assume dictatorial powers in March 1933. It must be admitted that much illuminating as well as humorous parallelism between statements of both business and governmental leaders in March 1933 and October 1934, may be adduced without carrying great conviction either way. The moral of the tale is that business and government are now in the same boat with perhaps the same mistakes back of them, and it behooves them both to row in unison until they reach the shore.

Higher Prices

Higher prices for most commodities are still the goal of the Government, but they are to be attained without

further drastic or fantastic efforts to build them up artificially or according to a fixed standard. Price adjustments, also, are regarded as more important than mere price lifting. Price fluctuations are to be avoided, including runaway prices in any particular line. The program is to be one of evolution, not revolution. All of which is sensible in theory but difficult in application.

Investment Trusts

The Senate committee on banking and currency in the sixth instalment of its report on the investigation carried on last Winter and Spring draws a sharp distinction between British and American investment trusts, regarding the former as conservative organizations of investors to secure diversity in investments, disinterested management, conservative investments and standardized management charges, while the American trusts are regarded as convenient tools for dominant personalities to use in securing for themselves a maximum equity with a minimum of cash investment.

An observer is likely to discount this report to some extent in the feeling that all financial crookedness is not on this side of the ocean and all virtue beyond the seas, but there is certainly enough truth in the committee's contentions to

warrant some of the action which the Government and the stock exchange authorities have taken to prevent a recurrence of recognized abuses.

Closed Banks

The Federal authorities have taken up another notch in their belts preparatory to getting rid of unlicensed banks before the opening of Congress in January. The task is a difficult one. Ten years has not been an uncommon period for winding up the affairs of a national bank by the Comptroller's office.

On an average, national banks which went into the hands of receivers at the time of the banking holiday 18 months ago have paid a little over 50 per cent of their obligations. That means, according to the average liquidation of national banks in previous years, the depositors on an average may expect from 15 to 18 per cent more of their money if abundant time is allowed for the purpose. The R.F.C. or sales of assets to other banks have made possible the payment of the 50 per cent dividend. The R.F.C. may go a little further and buy some of the more doubtful assets.

Candor compels one to add, however, that the amount of money yet to be realized by creditors of the closed banks is not overly impressive.

(CONTINUED ON PAGE 44)

CONTROL

The poll of corn-hog producers on the question of continuing the A.A.A. control program has been interpreted both ways, especially in Kansas, where 23,915 livestock raisers voted against and 18,456 for, with 40 per cent of the producers voting. Right, Secretary Wallace; left, seated, Administrator Davis; standing, A. G. Black, Chief of the Corn-Hog Section



KEYSTONE

Has business any right to profit?

THERE are people who believe that if business would give up the old fashioned idea of trying to make a profit, our troubles would be over.

What is profit anyway? How does it fit into the American scheme?

Let's first see how a business starts. The people in this country want a great many things. They want ease, convenience, health, good food, education, social advancement, better homes and cars, radio, travel. They want to be attractive and have a good time.

The idea in starting any business is to satisfy one of these universal wants. If the business does that, and is well managed, it grows into a profitable enterprise. People are employed and receive wages. Because dividends are earned, other people are glad to invest more of their savings. A community of homes, schools, churches and hospitals grows up around and is supported by the business. Customers, workers and investors all are benefited and none is harmed.

Now suppose the business fails to earn a profit. Investors lose their savings. Workers are laid off. Local merchants are in trouble because customers cannot pay their bills. Mortgages are foreclosed and homes lost. There come hunger, unrest, bread lines, sickness, under-nourished children and increase of crime.

An unprofitable business benefits no one. Our cities, states and national government must collect about eight billion dollars each year to keep going. Either this money must come out of profits earned by business, or national wealth must be confiscated.

America has been built from profits. Profits built our railroads, utilities and industries employing millions of workers. The incentive of profit created the automobiles we ride in, the electric convenience of our homes, the safe and dependable commercial air lines which are the marvel of the world. Profit pays for the inventive genius which almost daily produces better materials and finer products. Profit has paid for the research into pure science which has meant so much to our health.

After paying for materials, labor and taxes, the average business rarely earns more than six percent on the money invested. Many enterprises pay far more in taxes than in dividends. In the past year, railroads paid \$249,602,895 in taxes, or \$2.61 taxes for each \$1 dividend. This slender margin of profit is the real difference between sickness and rather feeble health. Sturdy business health is essential to national well-being and prosperity.

And so, business has more than a *right* to make a profit—it has an *obligation* to make a profit.



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BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

NOVEMBER 1934

Bank Owners

BY GEORGE E. ANDERSON

THE nature of banking legislation to be considered by the next Congress has been a matter of wide conjecture and discussion since the last Congress adjourned. Some have forecast an effort to establish a central bank which would supplant the present Federal Reserve System, pointing out that such a step would be the logical evolution of recent Government policy. Others have looked for less extreme measures, although anticipating some further control, perhaps a recodification of banking law in the interest of uniformity.

More recently, there have been indications that the most radical change—a central bank—would not be pressed in any responsible quarter and that alterations having the Administration's support would maintain the present framework of the American banking system.

It is of considerable importance, therefore, that at the present time a number of prominent groups are making studies of possible changes. Among those engaged in these efforts are committees representing the Reserve City Bankers, the Federal Reserve System, the American Bankers Association and the Treasury. The feeling exists that out of these various investigations will emerge the outlines of a constructive plan inasmuch as there is an increasing disposition to recognize the rights of depositors and stockholders.

A bank is more than a mere business house or a unit in a conception of national credit facilities. Theoretically, of course, banks are owned by their stockholders. If there is a profit from the operation of a bank, that profit goes to the owners of its stock. If there is a loss the stockholders bear the loss—in national and many state banks, in fact, by double liability if the loss involves its solvency. Nevertheless a bank is more than an institution owned by stockholders and operated for a profit. It is to some extent a coöperative concern depending in the first place upon its depositors. A bank can exist without stockholders as, for instance, in the form of a mutual savings bank. But it cannot exist without depositors.

When theorists and agitators talk of doing this, that, or the other thing to the banks of the country, of the Government taking over the banking system, of the control of bank credit or expansion of bank credit in line with any particular purpose, or of forcing banks into any particular line of policy, they are not merely dealing with 15,031 privately owned business concerns listed in the latest Government bank reports. They are dealing primarily with the depositors in the banks, proposing to hand over the \$31,600,000,000 of private funds owned by individuals of what we call the general public.

There were 56,000,000 of these depositors in the commercial banks in the Federal Deposit Insurance system at last accounts and around a million more in banks not members of that organization. There were also over 12,000,000 depositors in the mutual savings banks of the country. Doubtless there is some duplication in these figures but it cannot be doubted that, on an average, one out of every two men, women and children in these United States has a bank deposit and has a direct interest in what a bank is, what it does and what is done with it.

National control of credit or the nationalizing of banks in any form, means the nationalization of the thrift of these millions, the nationalizing of the savings and surplus not of banks but of private individuals, especially that more valuable half of the population whose energy, thrift and self-sacrifice make possible all credit and business based upon credit. It is a rather stupendous proposition, not so easily handled.

There is also considerable misconception as to the legal ownership of the banks. At the present time there are a few more than 15,000 commercial banks in operation in this country. There is a school of politics which holds these institutions, as a class, as privately owned, selfishly operated concerns, conducted by a few persons for their own benefit.

The fact is that banks are rather popular institutions. On an average something like one family out of every 15 in the country owns commercial bank stock. If depositors in the

581 mutual savings banks with their \$8,500,000,000 of deposits are counted as owners, which they really are, something like one out of every two families in the country, on an average, has part ownership in the country's banks.

This question of who owns the banks is interesting, for it has never been fully answered. There are no complete statistics of the number of stockholders in commercial banks of all classes. The number of stockholders in each national bank is reported to the Comptroller of the Currency with each statistical call report, but the total has not been compiled since 1914 when the custom of making a compilation every ten years or so was discontinued. There has never been any compilation of the number of state bank stockholders so far as is known. All the data now available are contained in various private statistical manuals covering individual banks, and this information is scattered and incomplete.

Estimates based upon weighted averages are possible, however, and they give some rather crude but interesting results. For example, in his testimony before the House Committee on Banking and Currency in the hearings on branch banking early in 1930, Comptroller John W. Pole stated that the failure of 5,000 banks in the previous nine years had involved \$1,700,000,000 of deposits and loss to 114,000 stockholders. That was an average of about 23 stockholders to a bank or one stockholder to each \$14,913 of deposits. The average size of the banks which failed in that nine-year period was very small. Larger banks, on an average, have more

stockholders than small banks and it is a fair presumption that in a general way the number of stockholders will increase with the amount of deposits of a bank. This rule holds good, however, only with considerable reservation.

There is, of course, enormous variation in the number of stockholders in banks. There are hundreds of banks each of which is owned almost by one person, the number of stockholders being practically limited to members of the owner's family and enough outsiders to qualify as directors. There are other banks with an astonishing spread of stock. The stockholders of some small local banks include almost every business man in the community and nearby countryside.

PRESENT RATIOS

THE two largest New York City banks at the end of 1932—the last published figures available—had “over 85,000” and 83,248 stockholders, respectively. Other large banks in various parts of the country show stock distribution even larger in proportion to their size. The variation in stock distribution shows less in small banks and in the very large banks than in the medium sized banks.

An examination of the actual figures reported by 157 small banks in all parts of the country, selected as typical of their class and location, shows an average of one stockholder to almost exactly \$15,000 of deposits, agreeing rather uncannily with the figures given by Comptroller Pole. An examination of 23 of the largest banks of the country, similarly selected—banks with a capital of \$5,000,000 or over—shows an average

of a little over \$18,000 of deposits to each stockholder, while an examination of the returns of 119 banks with a capital of between \$200,000 and \$5,000,000 shows an average of one stockholder to \$24,685 of deposits. The greatest variation comes in this middle class. One of the banks actually listed shows one stockholder for each \$400,000 of deposits. Half a dozen of the smaller banks in this class showed an average of one stockholder to each \$3,000 of deposits.

If the averages of the ratios of the number of stockholders to the amount of deposits for the several classes of banks are weighted by ascribing to each class its proportionate holdings of the \$31,552,000,000 of bank deposits other than interbank and public deposits as shown by the last call report of the F. D. I. C., basing the classification upon the classification of national banks according to their capital stocks made by the Comptroller of the Currency in his last published report, the result is 823,851 stockholders in the large banks of the country, 357,520 in the small banks and 454,353 stockholders in the medium sized banks. These figures give a total of 1,635,724 stockholders in American commercial banks.

But under any circumstances stockholders can hardly be considered as retaining their investments for the profits involved. Doubtless the majority of them hold their shares in the hope of better days, because they cannot dispose of them without loss, or perhaps for some business advantage.

In dealing with the subject of banking there is a tendency in political and economic thought to fail to see the trees for the woods—to fail to realize that while one may reason with respect to banking as an abstraction and use it as perhaps a king or castle on the economic chess board it is after all a business of details, of local origin, with preëminently local application and local reactions. Any move with respect to it, political or otherwise, must have due regard for what it means back home. This fact naturally has its bad as well as its good points, but in such matters as the establishment of a national credit policy, in the proposal for a central bank or in any attempt to use the savings and other funds of the individual bank depositor or stockholder for national purposes it is the factor which will ultimately exercise control, and that control will certainly be exercised along conservative lines and in the best traditions of American banking.

The owners of bank funds



A Federal Reserve System

The evolution of the Reserve System, now 20 years old, can be traced in opinions of men closely identified with its origin, and of those who have followed its subsequent development

| | | |
|---|-------------------------|--|
| 1907 Paul M. Warburg | 1913 Robert L. Owen | 1923 H. Parker Willis |
| 1908 Carter Glass | 1913 Carter Glass | 1923 Paul M. Warburg |
| 1908 Paul M. Warburg | 1913 A. Barton Hepburn | 1924 Benjamin Beckhart |
| 1909 Nelson W. Aldrich | 1913 Frank A. Vanderlip | 1925 E. A. Goldenweiser |
| 1909 O. M. W. Sprague | 1913 E. R. A. Seligman | 1925 W. P. G. Harding |
| 1909 Victor Morawetz | 1913 Nelson W. Aldrich | 1926 H. Parker Willis, William H. Steiner |
| 1910 George E. Roberts | 1915 Paul M. Warburg | 1927 Carter Glass |
| 1910 Paul M. Warburg | 1915 Benjamin Strong | 1931 Walter E. Spahr |
| 1911 O. M. W. Sprague | 1918 Edwin W. Kemmerer | 1932 Charles O. Hardy |
| 1911-12 National Monetary Commission | 1922 H. Parker Willis | 1934 H. Parker Willis, John M. Chapman |
| 1912 J. Laurence Laughlin | 1922 Benjamin Strong | |
| | 1922 Paul M. Warburg | |

THAT a central bank is the ideal solution of the difficulty and that it must finally come—though, perhaps, we may not live to see it—is my firm belief. None of the reasons advanced against it are tenable. . . .

In creating a central bank with limited powers and in making clearing-house certificates the regular means of rediscounting and of taking out additional currency in times of scarcity of money . . . we should adequately meet the situation. . . . Instead of giving vast and vaguely defined powers, properly belonging to a central bank, to one or two political officers . . . we should define the power and responsibility clearly and should associate with our political officers, in bearing it, a large body of our best-trained business men. This would mean a democratic, a conservative, and a modern way of self-government.

—PAUL M. WARBURG, 1907.

What the country needs is not a legislative deformity for emergency, but a

wise and careful revision of the entire banking and currency system of the United States, whereby panics may be prevented or their violence diminished.

—CARTER GLASS, 1908.

The United States must finally develop some kind of a central banking system, giving the country an elastic currency based on modern commercial bills payable in gold: a system similar in principle, if not exactly alike in form, to those of the important European central banks.

While this must be the final aim, our political, legal and economic conditions preclude the possibility of creating at present an institution with powers and efficiency equal to those of the European government banks.

—PAUL M. WARBURG, 1908.

The National Monetary Commission was created to recommend machinery and methods by which confidence could be sustained, and credit maintained,

under all circumstances and conditions in this country. . . .

We [in the United States] provide that reserves cannot be used, and we forbid an extension of credit when difficulties are upon us. On the other side [in England, France and Germany], they provide a method by which reserves can be . . . indefinitely extended, and they provide for a liberal extension of credit when difficulties are upon them or when they are anticipated. This difference is fundamental, and while I am not suggesting . . . that the systems in any one of these countries can be used in the United States, certainly without material modifications, their methods and the success of their methods certainly furnish all of us who are studying this question with food for thought.

—NELSON W. ALDRICH, 1909.

A central bank does not appear to be either required or well suited to relieve our financial difficulties. On account of the absence of branch banking it would not be able to handle the Government

funds in a satisfactory fashion, or to provide an elastic note issue. Branch banking is an essential preliminary, if we are to have a central bank of anything like the European type, and there are powerful objections to such a change.

—O. M. W. SPRAGUE, 1909.

While . . . a single central bank of reserve for the whole of the United States would not be desirable or practicable, concentration of part of the reserves of the banks in various sections of the country would be both desirable and practicable. . . .

It is suggested that . . . banks in any section of the country unite in forming a sectional reserve bank, to be controlled by them through stock ownership, each of the banks depositing part of its reserves in the bank so formed. Such a sectional bank should be administered so as to enable it at all times to furnish reserve money to the several banks by paying checks drawn upon their deposit accounts or by rediscounting paper offered by them for that purpose. To that end it should always keep ample reserves of lawful money, and should engage only in the business of receiving deposits, of purchasing short-time paper of high quality, and of rediscounting paper accepted or endorsed by other banks.

—VICTOR MORAWETZ, 1909.

The main purpose with us in securing a central institution is to consolidate our gold reserve in responsible hands where it can be used to safeguard the entire banking situation. Another important function, however, would be that of serving as the fiscal agent of the Treasury and handling the public funds. . . .

The central institution should be planned to unify and strengthen and supplement the existing banking system. While the Government should have intimate supervisory relations to it, the active direction of its affairs should be in the hands of representative bankers from all sections of the country. . . .

Finally, a system of thousands of scattered and unrelated banking institutions is unequal to the responsibilities which in a country of such vast industrial interests as ours are necessarily laid upon the banking system. A higher organization of our banking power is absolutely required and somehow it will be supplied. . . .

—GEORGE E. ROBERTS, 1910.

Between the opponents and the champions of a central bank plan there is complete unanimity of opinion that such a system should be tried in our country only if the dangers of "Wall Street" or political control can be absolutely averted. . . .

. . . the plan . . . [Mr. Warburg's proposal for "A United Reserve Bank of the United States"] does not suggest a central bank such as exists in various European countries. It is a scheme based upon conditions peculiar to our country and our form of government. It recognizes the vast territorial area of the United States, the diversity and dissimilarity of interests, and even the traditional, sectional and partisan prejudices of the people. . . .

Each section . . . will have a central reserve bank of its own, where directly—or indirectly through its correspondents—each bank in the United States will enjoy the advantages offered by the United Reserve Bank. . . .

No political patronage whatsoever would be connected with the United Reserve Bank. A conscientious and honest man, not even brilliant, would be required to fill the presidency, at the pleasure of a board which . . . would be made up of the best men the various banking communities could secure as delegates. . . .

It is evident that a central bank managed with the single object of watching expansion and contraction, and of maintaining the safe proportion between cash and cash obligations, a bank which cannot be swayed in its policy by any prospect of gain, and a bank the management of which is not subject to the immediate pressure brought to bear by the customer . . . will be in a vastly better position to form a clear opinion concerning the larger point of view . . .

—PAUL M. WARBURG, 1910.



KEYSTONE

ANTE-BELLUM WALL STREET

There would be twelve money centers instead of one

The present juncture is an unfavorable moment for the establishment of a central bank, because men having the experience required for its management can hardly be found outside the circles of those who as a class have been the subject of widespread and exaggerated doubt and discredit. . . .

In magnitude, permanence, and in the nature of the fluctuations, the balances of the United States Government are quite unlike those of any other countries. Placed in a central bank, they would constitute a permanent fund of widely varying proportions, the use of which would give the bank a fluctuating power unlike anything in banking experience. But the manner of putting these funds into general use would be equally without precedent. Without doubt there would be a general demand

that the deposits be used with some degree of approximation to the population and the supposed needs of various parts of the country. . . . To lend directly to the business community, even if that were to be permitted, would require an impossible number of branches. . . .

In order to distribute its funds widely, the central bank would be obliged to lend to at least as many banks as there are localities; and, since the selection of a single bank would give rise to charges of favoritism, the bank would be certain to lend to all the banks. . . .

—O. M. W. SPRAGUE, 1911.

It is proposed to incorporate the National Reserve Association of the United States with an authorized capital equal to 20 per cent of the capital of all subscribing banks. . . . All state banks and trust companies conforming to the provisions of the bill with reference to capitalization and reserves and all national banks are entitled to subscribe for stock and to become members of the association. . . .

It [the National Reserve Association] is not a bank but a coöperative union of all the banks of the country, with very limited and clearly defined functions. . . . Instead of overshadowing the banks, it is their representative; its controlling forces, acting in the public interests, impose policies upon and grant powers to its managers. . . . It is outside of and supplemental to the existing system and not a competitor in any sense with existing banks. Its dominating principle is coöperation and not centralization.—NATIONAL MONETARY COMMISSION, 1911-12.

We do not need a dominating, powerful central bank; what we need is not centralization, but coöperation—entered into by all our institutions of credit—to the end that we may avoid selfish isolation and create a federation in the interest of all the banks. . . .

Means of coöperation devised by a National Reserve Association should be aimed at a decentralization, rather than at a centralization, of credit—as opposed to a dependence of local banks upon centralized institutions, as now. Under the plan evolved by the National Monetary Commission all the banks of a locality would be grouped into a local Association. . . . Each separate Association would have local self-government; but yet . . . it would be a part of a coöperative plan. . . . Then, while

locally self-governed, these Associations would be grouped into fifteen districts. . . . The district branches would be federated into the National Reserve Association. . . .

It should be said . . . that no government bank is likely to be satisfactory or efficient in the United States, and that such a scheme is too hazardous under our political conditions, to be considered for a moment.

—J. LAURENCE LAUGHLIN, 1912.

The nearest approach we can get to a central bank with twelve regional banks is to "pipe" the regional banks under the safeguard of a wise and conservative administration.

—ROBERT L. OWEN, 1913.

Although the members of the Federal Reserve Board will all be appointed by the President of the United States, the board will not be a political board in any narrow sense of that term. It is my earnest conviction, based upon long and serious reflection, that no man can conceive—as none has yet pointed out—

how any part of this system can be perverted to political uses. In my judgment, if the United States has ever had a President ingenious enough to do this evil thing, it has never had one desperate enough and will never have one shameless enough thus to betray the confidence of the nation.

—CARTER GLASS, 1913.

The Federal Reserve Board by its very nature will be nothing more nor less than a department of the administrative branch of the Government charged with the direction and control of the banking destinies of the country. In the event of a district desiring some special favors at the hands of the Federal Reserve Board, it would be in a position to make use of present political methods to secure the influence of Senators and Representatives in favor of that particular district. The banking community, as a class, has no representative on the Federal Reserve Board. This, together with the additional fact that, as a class, bankers have only a minority representation on the boards of the regional banks themselves, makes it

JACKSONIAN PATTERN

An event of 1832 which has influenced U. S. banking toward decentralization ever since. President Jackson's detailed explanation of why he vetoed the bank bill took four columns in the old New York Evening Post of July 12, 1832. Only the first two paragraphs are reproduced below

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MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES,

Returning the Bank Bill, with his objections, &c.

TO THE SENATE:

"The bill to 'modify and continue' the act entitled 'an act to incorporate the subscribers of the Bank of the United States,' was presented to me on the 4th of July instant. Having considered it with that solemn regard to the principles of the Constitution which the day was calculated to inspire, and come to the conclusion that it ought not to become a law, I herewith return it to the Senate, in which it originated, with my objections.

A Bank of the United States is, in many respects, convenient for the Government and useful to the people. Entertaining this opinion, and deeply impressed with the belief that some of the powers and privileges possessed by the existing Bank are unauthorized by the Constitution, subversive of the rights of the States, and dangerous to the liberties of the people, I felt it my duty, at an early period of my administration, to call the attention of Congress to the practicability of organizing an institution combining all its advantages and obviating these objections. I sincerely regret that, in the act before me, I can perceive none of those modifications of the Bank charter which are necessary, in my opinion, to make it compatible with justice, and with sound policy, or with the Constitution of our country.

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manifestly unjust to require the banks to surrender so large a portion of their resources to the regional banks. To some extent, the regional banks will be competitors with the banks for business. Is it not going too far to expect that the banks should furnish one-fifth of their capital to an institution which will be a competitor?—A. BARTON HEPBURN, chairman of the Currency Commission of the American Bankers Association, 1913.

That it is very desirable to create a central bank or banks that will have the power always to loan to member banks, is obvious. . . .

I think no clear-minded student of this subject can possibly arrive at any other conclusion than that you must have in effect a single central reservoir. You may have twelve regional banks that are so piped together with a force pump . . . that in effect they become a central reservoir. But that is the thing we must have—a single central reservoir, whether we get it through twelve or four piped together, or whether Congress does what the best minds there must know they ought to do, were it not for a party platform, and give us a single central bank.

—FRANK A. VANDERLIP, 1913.

. . . I must voice my very pronounced disappointment that in some of the fundamental features of this bill (the Owen-Glass Federal Reserve bill) there has been no attempt made to follow the teachings of sound theory. In England, Germany and France there was not a single departure in any fundamental point from the teachings of sound theory; but in this bill what do we find? . . . I . . . call attention to the fundamental fact that the proposition of twelve regional reserve banks flies in the face of all sound theory. I venture to assert . . . that if the economists and the thinkers of this country were called together in conclave today, there would scarcely be a dissenting voice on this point, and there would certainly be an overwhelming majority to the effect that this proposition—the fundamental proposition, in most respects, of the bill—is incorrect, and if persisted in will make the whole measure either a failure, or, at all events, very largely impotent to bring about the results which we all desire.

—EDWIN R. A. SELIGMAN, 1913.



WALL STREET TODAY: A little less busy

. . . by the establishment of the Federal Reserve Board Congress would create a Government central bank. . . .

One of the main purposes of creating the Federal Reserve banks is to secure such a concentration of reserves as will permit their prompt use in any amount and in any part of the country to establish confidence and avoid panics. I think it must be evident to anyone familiar with conditions that the creation of these twelve or more Federal Reserve banks will not accomplish this purpose. . . .

. . . this is, I think, the first attempt to give a Government board the right to manage a great business, which is more important in its intimate relations to all the people than any other. If the attempt is successful it will be the first and most important step toward changing our form of Government from a democracy to an autocracy. No imperial

government in Europe would venture to suggest, much less enact, legislation of this kind. . . .

—NELSON W. ALDRICH, 1913.

I believe that the function of government is not only to regulate but to construct, and I believe that I am expressing the feeling of my colleagues of the Federal Reserve Board and of the men in charge of the Federal Reserve banks when I say that we are looking forward to the time when all our energies may be applied, not to regulation, but to helpful coöperation in the general work of construction. . . .

The greatest danger that can come to this System is from the pressure of selfish elements that would want to see the system used for their own individual advantage. . . .

The Federal Reserve System, prop-

erly developed to its highest efficiency, will give the country the advantages of a central bank, which, in substance, are centralization of reserves and mobilization of commercial paper; but, at the same time, it avoids complete centralization which, while assuring higher efficiency and easier operation, would in our country prove a source of danger and attack.—PAUL M. WARBURG, 1915.

Now my own view of the law has somewhat changed since taking a position in this system. Before the law was passed, with many other bankers who I think were devoting themselves to serious thought on this subject, I felt that one bank was what this country wanted. . . . We have twelve banks. With these we can well be satisfied. Our problem just now is to assist in the development of the system that we have, so that it will serve your needs.

—BENJAMIN STRONG, 1915.

The four chief defects of our American banking system as it existed prior to the enactment of the Federal Reserve law . . . were decentralization, inelasticity of credit, cumbersome transfer system, and defective Government depository system. To remedy these defects the Federal Reserve System was created by the law of December 23, 1913; and Federal Reserve banks opened their doors for business November 16, 1914. Since that date the System has developed rapidly under the management of administrative boards and under the influence of important amendments to the organic law.

—EDWIN W. KEMMERER, 1918.

He [Woodrow Wilson] expressed himself . . . as desirous of making the measure a thoroughgoing, complete banking and currency bill, and was positive in his thought that there should be a central control organization—although he accepted the view already developed in the subcommittee—and that actual banking should be carried on in subdistricts and by local organizations acting more or less independently of one another.

—H. PARKER WILLIS, 1922.

The Federal Reserve System has always impressed me as being essentially a social institution. It is not a super-government, it is simply the creature of

Congress, brought into being in response to a public demand. . . . Its future depends upon its own good behavior and holding the confidence of the public.

—BENJAMIN STRONG, 1922.

The Federal Reserve System can only expect to succeed in keeping itself clean if, on the one hand, it can count upon the whole-hearted protection of whoever . . . fills the presidential chair at the White House and, on the other hand, upon the unwavering active support of the people. . . .

Congress must feel that whoever dares to encroach upon the independence of the Federal Reserve System attacks the most sacred treasure of the people . . . A Federal Reserve System turned into a political octopus, a national Tammany Hall, would infest not only the counting houses but every farm and home in the country.

—PAUL M. WARBURG, 1922.

Perennial in the whole discussion of banking has from the start been the controversy whether a central bank was desirable for the United States. It was opposition to the central bank idea which . . . was responsible for the

present structure of the Federal Reserve System. . . .

The Federal Reserve System has done well and has deserved well of the community. . . . What it will do, how it will act, and what will be the attitude of the public toward it from this time forward, remains to be learned. One thing is certain: It is in unstable equilibrium and cannot be expected now to maintain its present position. It must go forward or consent to lose ground, perhaps ultimately to suffer the fate of other central banks which in the past were destroyed by demagogues.

—H. PARKER WILLIS, 1923.

Inroads by politics upon the independence of the Reserve System have already reached the proportions of a serious threat to its integrity. It is this growing political domination which is by all odds the gravest danger confronting the System. . . .

—PAUL M. WARBURG, 1923.

While we may be thankful that the onslaught of the agriculturists has done no more damage than it has, the future of the Reserve System is not altogether promising. Politics has begun to play a more im- (CONTINUED ON PAGE 46)

WASHINGTON TODAY: Where the next effort will be made to find the right dividing line between centralization and decentralization. In the picture is a noon-hour gathering of workers outside the Treasury



U. S. G.

Canada's Central Bank

BY E. N. RHODES

Canadian Minister of Finance

MILES—Chalk River, Chappleau, Kenora, Swift Current, Sicamous. One reason for the importance of the new banking development in Canada is that it takes place in a country with vast opportunities for future development

PERHAPS no other two nations are more vitally concerned in each other's economic welfare than are the United States and Canada. Fostered by generations of peaceful relations, the easy flow of population, goods, capital and ideas in both directions across our international boundary line has engendered an active mutual interest in the endeavours of each to promote progress and stability in the economic sphere. It is in recognition of this neighborly interest in each other's affairs that this brief discussion of the Bank of Canada, shortly to be established in the Dominion, is written for BANKING.

A review of the development of central banking in the world reveals that Canada is among the last of the important countries to adopt this principle. It is natural to ask why this should be so. The answer appears to be twofold. In the first place, it must be remembered that since 1914, when at the outbreak of war the Finance Act was passed, Canada has had in operation a mechanism which has performed an important function usually associated with a central banking institution, namely, that of rediscounting or making advances to the commercial banks.

That is to say, the demand for rediscounting facilities which to such a large degree paved the way for the Federal Reserve System had been met in Canada through the services offered by a department of the government. Although introduced merely as an emergency measure, the Finance Act in 1923 was made a permanent part of the Canadian system and it functions up to the present day.

In providing an elasticity in the credit structure, and particularly in emergency use, the Finance Act has

performed a useful function. But while offering some of the advantages which follow from a central bank it lacked the full complement of powers ordinarily associated with such an institution. The Finance Act may be said to have provided a "halfway house" in a period of transition.

In the second place it is undoubtedly true that because of relatively successful operation of the existing banking system Canada, in the past, has not been impressed with the need of supplementing it with a central bank. It is easy to see how a highly coördinated branch banking system such as that of Canada might contain within itself the remedy for many of the evils inherent in a system less closely knit and subject to less voluntary supervision and internal control. Admitting this fact, however, is not to be taken as implying that the banking structure has in recent years deteriorated, making it necessary to supplement it. Rather, the factors which have made some change desirable are to be found in the changed world conditions within which the banking system operates, together with the wider realization of the need of control over the operation of private economic institutions.

It has long been an accepted principle in Canada, and wisely so, that banking legislation should recognize and closely follow changing conditions in the business and financial world. In view of this, the Bank Act has provided for decennial revision. The ten-year period since the previous revision expired in 1933 and at that time it was decided to postpone revision for one year in order that the situation confronting the government might be thoroughly explored.

In the meantime a Royal Commission

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| 164.0 | 2870.4 | to Victoria | 3.30pm | |
| | | to Seattle, Wash. | 9.30pm | |



under the able chairmanship of the Right Honourable Lord Macmillan, P.C., K.C., of London, was appointed and conducted a comprehensive survey of the organization and working of the entire banking and monetary system of the Dominion with particular reference to the question of a central bank. On the basis of its study, although complete unanimity of opinion was not obtained, the majority of the Commission recommended among other things the immediate establishment of a central bank for Canada, and in addition offered valuable suggestions for the constitution of such an institution.

Accepting the recommendation of the Commission, the present government on February 22, 1934, introduced a measure in the House providing for the establishment of the Bank of Canada. It is perhaps worth noting here that although there had not been complete agreement between the members of the Commission regarding the need for such a bank, yet there was immediate and unanimous acceptance of the principle by the House of Commons. Opposition to the bill was confined wholly to matters of organisation and detail. The legislation providing for the incorporation of the Bank of Canada was assented to on July 3 of this year and upon the completion of the necessary preparations the bank will shortly commence operations.

Before passing on to the discussion of the bank itself, one further observation might be made regarding the conditions out of which it has grown and the general attitude toward it. It is accepted generally not as a break with the past but rather as marking an advanced stage in the natural evolution of the banking system, at which the erst-

while passive legislative measures of control over the financial mechanism are vitalized into active supervision and regulation by a separate institution created expressly for this purpose.

This situation is in striking contrast to the conditions which have given birth to the majority of central banks established since the war, finding their origin, as they have, in chaotic monetary conditions, often through the too free use of government printing presses; or even to the emergency of the Federal Reserve System before the war, which was in a large part designed to correct a generally recognized unsound banking condition.

What are to be the aims and functions of the Bank of Canada? In terms of the preamble to the act the bank is "to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, *so far as may be possible within the scope of monetary action*, and generally to promote the economic and financial welfare of the Dominion." This will be recognized, of course, as merely covering in a formal way the generally accepted principles of central banking. Yet it does express quite clearly and definitely the direction in which it is hoped useful results will be obtained. An analysis of each of

these functions in the light of the situation obtaining in Canada may provide the basis for estimating the prospects of successful operation by the Bank.

First of all, in regard to the regulation of currency. At present, paper money in Canada comes from two sources, the government and the chartered banks. The Bank of Canada Act, however, provides for the gradual reduction and eventual extinction of the right of the chartered banks to issue notes. The bank will take over, also, from the government the liability of the Dominion notes outstanding and will retire them, issuing in their place its own notes which are to be legal tender. This unification of note issue will make possible, among other things, a more perfect adjustment between the supply of currency and the business demands for it.

The gold now held by the Department of Finance and by the chartered banks will be transferred to the bank and held as reserve against the legal tender notes and deposit liabilities of the Bank of Canada and indirectly of the whole banking system. Thus, for the first time in Canada's history the total stocks of monetary gold will be concentrated under a single authority charged with the responsibility of seeing that reserves are adequate. This should make possible the most efficient and most economic use of these reserves as well as ensure the maximum of security

CITIES

Montreal, Ottawa, Toronto, Winnipeg, Calgary, Vancouver.
Below is an air view of Vancouver, Canada's chief Pacific Coast city



FAIRCHILD AERIAL SURVEYS



EWING GALLOWAY

OTTAWA

The parliament buildings of the Dominion. Historically, the official attitude toward banking has been one of mutually helpful coöperation

to our currency and banking system.

In the second place, the Bank of Canada will attempt to regulate the volume of credit and, as far as may be possible within the scope of monetary action, to mitigate fluctuations in the general level of prices, employment and business activity. While it is realized that the forces giving rise to alternate booms and depressions in Canada may, in many instances, be non-monetary or external in origin, yet it is believed that by its influence the bank may be able to alleviate and, to a degree, neutralize these forces, and to render less severe their impact on the economic life of Canada. There is reason to believe that distinct advantages will accrue through the formulation of a deliberate and informed credit policy which will act as a brake in times of undue optimism and expansion and which will offer stimulus and assistance in times of depression and crisis.

There may be a question in the minds of some as to whether, in the absence of a well organized money market, a central bank in Canada will find itself in a position to make effective any policy of control over the financial mechanism. Without attempting here to discuss this matter in terms of the usually recognized methods of enforcing control, it might be suggested that in the case of Canada where there are only ten chartered banks operating, four of which do over three quarters of the total banking business, the possibility of having a given policy made effective may not necessarily be dependent wholly upon the efficacy of ordinary

mechanical means of enforcement such as, for instance, the rediscount rate and open market operations.

In the third place, it is intended that the Bank of Canada will as far as possible introduce an element of control over the value of our monetary unit in the foreign exchange market. Because of a relatively large volume of external trade and foreign indebtedness Canada is particularly interested in the international value of her currency. Recent years have witnessed the havoc wrought on international trade through unstable currencies.

OTHER SERVICES

THE element of uncertainty which these conditions inject into financial transactions between nations makes normal trade relationships impossible. Accordingly, insofar as the bank is able to reduce the incalculable element in the foreign exchanges it will contribute directly to the economic welfare of the Dominion in its relations with the rest of the world. Furthermore, Canada, for the first time in her history, will possess an institution through which she will be able to coöperate with other nations in any proposals for world stabilization of currencies.

If and when a metallic monetary standard is readopted it will become the duty of the bank to maintain that standard. It has long been contended by students of the Canadian monetary system that definite responsibility in the matter of maintaining adequate monetary reserves has not in the past been clearly defined. In future this responsibility

will be no longer a matter of doubt but will be squarely placed on the Bank of Canada.

There is one other important field in which the bank may perform a very useful and much needed service. The act provides that the bank shall act as fiscal agent of the government of Canada and may also act as banker or fiscal agent of provincial governments. It may also make loans and advances to these authorities. Clearly the way is paved for the development of a short term money market in Canada, thus providing facilities for more economical short term financial operations of government bodies.

Furthermore, there is obvious need for some responsible authority which will provide expert and disinterested advice, particularly to provincial governments, regarding the domestic as well as the foreign market for bonds, and offer facilities for some possible coördination of external borrowing operation. There is here obviously a fertile field for the reaping of tangible benefits hitherto undeveloped through lack of appropriate machinery.

No one will deny that, with the above mentioned ends in view, the Bank of Canada is destined to play an important part in the future development of the Dominion. It is now proposed to discuss some of the more significant features of the bank in order to show how it is equipped to undertake these functions. In framing the constitution of the bank the experience of other countries has been carefully reviewed and no effort has been spared to secure an institution best adapted to meet our own particular needs.

The bank is to be a privately owned institution with the head office in Ottawa. Branch offices will be opened at such points as convenience demands. The chief executive officers (i.e. governor, deputy governor and assistant deputy governor) in the first instance will be appointed directly by the Governor in Council for terms not exceeding

seven years. Subsequent appointments are to be made by the directors subject, however, to the approval of the Governor in Council. The directors, seven in number, are to be elected by the shareholders and, to ensure that no particular class of interests will dominate, they must be selected from diversified occupations. Directors, officers and employees of the chartered banks are ineligible for this office.

The capital of the bank is \$5,000,000 (subject to increase from time to time) and has been offered to the public in shares of \$50 each. They may be held only by British subjects ordinarily resident in Canada and not more than 50 shares may be held by any one person. Provision is made here also that the chartered banks, their directors, officers and employees may not own shares in the bank. Dividends are limited to 4½ per cent cumulative.

This broad question of ownership, control, appointment of officers and directors, and the general relation of the central bank to the government has been the subject of prolonged and careful study and also, incidentally, of some controversy in Parliament. The problem in this connection, of course, is a very delicate one. It is that of creating an institution which shall be devoted to the public interest, but which shall not be subject to the exigencies of politics in the narrower sense of that word. The services of the bank should obviously be at the disposal of the government, particularly in times of severe crisis and emergency. Clearly, however, the bank should retain a definite autonomy and should not be subject to interference with details of its administration nor be regarded as merely a wheel in the machinery of political government.

It should be in a position to maintain a detached point of view and should function as an independent adviser, accessible to the government at all times, with a special fund of knowledge and able to speak with special authority on monetary and banking policies affecting the general public interest. This, it is submitted, is not inconsistent with the recognition that the government possesses sovereign legislative power and must necessarily be the final authority on any question which may arise.

In the light of these needs the Bank of Canada has been constituted as outlined above and can best be conceived of as an institution, subscribed to privately by the people of Canada, designed to operate as an independent "public trust."

In defining the powers of the bank, the act provides ample scope for the exercise of all legitimate central banking functions while still imposing certain restrictions and limitations, particularly with regard to investments. The bank may buy and sell coin and gold and silver bullion and deal in foreign exchange. The chartered banks are given access to central bank credit in a set of provisions comparable to those which prevail at present under the Finance Act. These provisions are designed, as are the eligibility rules under the Federal Reserve Act, to ensure a flow of reserve credit, when needed, into ordinary commercial and industrial channels.

Loans and advances to the Dominion and provinces are permitted with definite limitations as to amount. The securities of these authorities, both short and long term, as well as the issues of some other countries including Great Britain and the United States, are eligible for limited investment. For the purpose of carrying on open market operations the bank may buy and sell in the open market, either in or outside Canada, securities, cable transfers, bankers' acceptances and bills of exchange of a defined range of kinds and maturities.

Deposits, which shall not bear interest, may be accepted from the Dominion and provincial governments, from the chartered banks and savings banks incorporated under Dominion legislation. It is expected that this latter provision will greatly facilitate the clearing operations of our banking system.

Certain types of business are specifically prohibited. The bank may not engage in or have a direct interest in any industrial or commercial undertaking, nor may it make loans or advances on real or immovable property. Unsecured loans and renewals of loans and advances are not allowed except under rigid limitations or in exceptional circumstances.

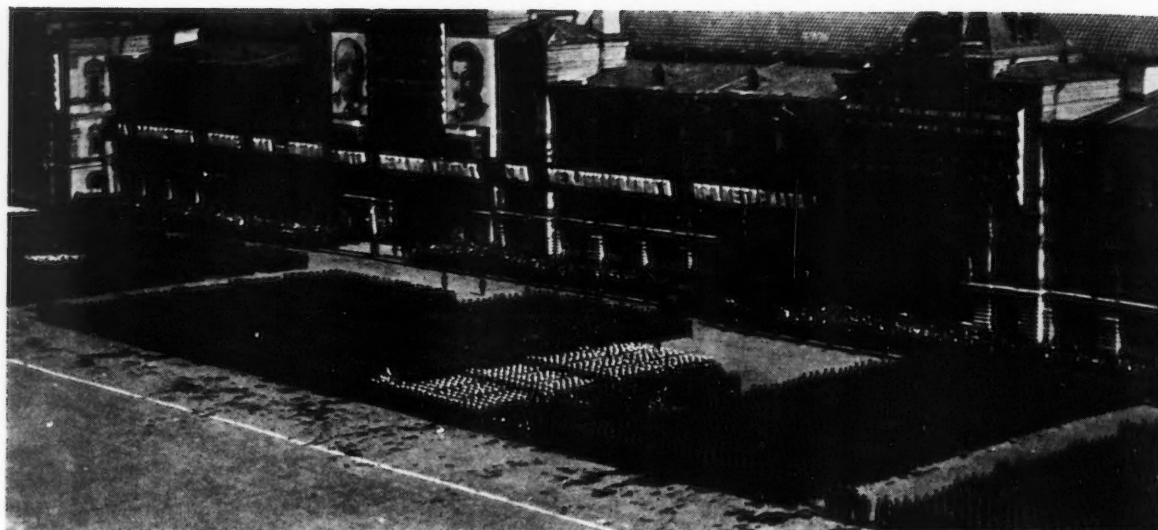
Against its combined note and deposit liabilities the bank is required by law to maintain a reserve. This reserve may consist of gold coin and bullion, silver bullion and foreign exchange. The item foreign exchange may be in the form of balances with the Bank of England, the Bank for International Settlements, the Federal Reserve Bank of New York and a central bank in any gold standard country, and also short term obligations of the United Kingdom and the United States, as well as bills of exchange—limited as to length of maturity and place of payment. (CONTINUED ON PAGE 48)

DAWSON, YUKON TERRITORY

The Canadian Government coöperated with its banks in building up the western provinces and in developing resources throughout the Dominion. This picture is taken from Victor Ross' *History of the Canadian Bank of Commerce*, in which it is related how the government took steps to have this Dawson branch of the bank act as banker of the Dominion government in the Yukon and as agent for receiving royalties on gold mined in the district



VICTOR ROSS' HISTORY OF THE CANADIAN BANK OF COMMERCE



People, troops and orators in Red Square, Moscow

SOVfoto

The Central Banks of Russia

DURING the past twelve months the banks in the Union of Soviet Socialist Republics, under a new law passed in April 1933, have consolidated their organization, defined their several provinces and established themselves as the principal instruments with which the Soviet Government directs and furthers the Five-Year Plan for the development of industry and agriculture.

By means of the so-called "ruble control", i.e., a watch over every expenditure and receipt of funds by all organizations and agencies, every step and stage of planning, construction, production and distribution is observed, compared with the Plan, and stimulated or restrained as required. Handling as they do all government budget funds, credits and profits made by industry and agriculture, the banks are held responsible for the proper use of these moneys, and demand detailed and accurate reports of every operation or transaction, from a sale of manganese by the Chiaturi mines to the building of a new piggery on a Siberian collective farm.

A glance at the carefully delimited activities of the various banks in the Soviet Union will show more clearly than any description the functions and

objectives of the various Soviet banks, directed from their administrative centers in Moscow, with branches throughout the land.

First, largest and broadest in its scope is the State Bank, with headquarters in Moscow and over 2,500 branches in various parts of the Union. This bank is the primary source of short term credit, both for industry and agriculture; the latter is becoming more industrialized as the collective farm movement spreads over the country, and the state farms, or grain, meat, milk or vegetable "factories" come more nearly to resemble producing units of an industrial type.

Because of its control over credits, the State Bank has the right and the duty to keep in touch with every move of the agencies it supplies with financial support. Purchase of raw materials by a plant, production and disposition of goods manufactured, prices of purchase and sale at every stage, must correspond with government rates and schedules, as fixed for the particular industry. Employment must move as charted in advance, numbers being controlled in proportion to production, with the rate of increase of the latter always greater than that of the former, so that the aim of greater labor productivity may be

realized. Wage scales must follow the accepted usage, and wage payments are constantly checked to prevent unwarranted increases. The matter of goods-price control is regarded as particularly important, and departure from the scales authorized, the falsification of invoices, local variations, all are regarded as "steps out of line", and dealt with accordingly.

Since all manufacturing, mining, transportation and other industries, as well as construction, communication and similar agencies, must carry their current accounts in the State Bank and buy from or sell to other agencies or one another by merely reporting transactions executed according to prior contract on file with the bank, a large part of the business of the country is carried on simply by making debit and credit entries on the books of the bank, in the accounts of the parties to the transaction concerned. This process provides another opportunity for checking by the bank, as part of its charge to translate the Plan into concrete results under its constant surveillance.

In the case of consumption goods, now being manufactured on a larger scale than heretofore, the State Bank has a further function, namely, to fol-

low the progress of the goods from the manufacturer to the ultimate consumer. The stages are few, from factory to wholesale agency, from that to the co-operative, government or municipal jobber, thence to the retailer, also a coöperative, government or municipal agency, and finally to the individual buyer. Yet at each stage there is a contract, a price structure, a distribution scheme to be watched and corrected if need be, all details of the millions of transactions flowing into the branch banks and through them in consolidated form to the Center.

When, as frequently happens, the same goods are sold in the same city at varying prices, it is the bank that notes and corrects this "diversion". When an assortment of goods suitable for the city is shipped to the country; when goods urgently needed by consumers pile up at central warehouses, leaving the shops with empty shelves; when goods reach the market, but prove to be of such poor quality that even the goods-hungry Soviet buyer refuses them; when, finally, the textile, millinery or cosmetic industries endeavor to palm off on a newly style-conscious public articles that do not represent the latest fashion sanctioned by the Kremlin—then it is the bank's function to intervene and "take steps", defending the interests of the consumer, who is being promised a comfortable and abundant life and for the first time in years finds his preferences catered to.

Since it is through "ruble control" that the State Bank exerts its influence, and this in turn depends on accurate bookkeeping, not only by the bank but also by all its clients, the Soviet Government has adopted a system of "economic accounting", which it is the duty of the bank to introduce, explain and maintain in every organization within its purview of activity, from giant trust to individual collective farm. This is the most far-reaching reform that has been adopted by Soviet finance since the establishment of its banking system, and it has proved the most difficult to enforce. Volumes have been written describing it, billions of forms have been distributed and the principles of the "khozrashchet", or the application of good business practices, of the profit and loss idea, of allowances for amortization, of separation of capital from current funds and expenditures, have been described in countless articles in the press.

Yet in this field there is evidently still much confusion and ignorance, in-

creasing the difficulties of the bank, which neither in personnel nor in facilities is properly equipped to handle its gigantic tasks, of which "economic accounting" is the foundation. But the process of education and instruction goes on, and the bank is constantly widening its field of activity, as its clients increase in number, size and variety, reflecting through their daily reports and accounts a picture of the entire economic structure of the state.

A second Soviet banking unit, with a field of its own, though also duplicating to some extent the functions of the State Bank, is the Bank for Industry and Electrification, the source of long term credit for industrial and other construction. Its methods, responsibilities and control of funds are similar, but it handles no short term credits and does not concern itself with manufacture or trade. On the other hand, its aid to construction is more extensive, and the funds in the state budget assigned for industrial expansion are advanced by the bank to the individual projects listed. Here again every step must follow the Plan—a project must have its own building plans worked out and approved, construction must proceed at a certain rate and expenditures must not exceed the allotted total or monthly allowances of credit. It must be acknowledged that this field of work

seems to present many difficulties to exact "ruble control". New plants are being built without plans, construction often fails to maintain the pace set and costs frequently exceed the original appropriations.

The Industrial Bank also supplements the work of the municipalities and administrative units in road building, construction or expansion of public utilities, etc. It is a prime mover in the electrification of the country, in the building of regional and local electric stations, all of which are gradually taking their places in a power net that will cover, first, European Russia and, later, a large part of the Asiatic section. In the building of the huge hydro-electric plants, completed and projected, the Industrial Bank distributes budget funds to the different properties and checks their expenditures against the progress reported.

The Agricultural Bank, in turn, with its branches, fulfills the function of advancing long term credit for agricultural expansion, limiting its support, of course, to the "socialized" forms of farming, the state and collective farms, and the "traktortsentr", the organization owning all the tractors assigned to agricultural purposes and operating them through the "machine-tractor stations" in furtherance of the agricultural policy of the government. Since the

CZARIST PATTERN

Under czarism, whether of the Romanoffs, Kerensky, Lenin or Stalin, the government has always been rigidly centralized. The people have learned to accept the minutest direction from the capital. Now, every economic activity heads up in Moscow. Below, the coronation of Nicholas II, last of the czars, in 1894



BROWN BROS.



THROUGH SIBERIA

An American-Russian Chamber of Commerce map advertising a tour "From Moscow to Siberia by special train, visiting the great new industrial centers of the Soviet Union"

individual farmer is rapidly being crowded to the wall, he enjoys few if any credit facilities.

The Agricultural Bank has many functions in its relations with the state and collective farms. It supplies funds for the building of barracks and cottages, barns and sheds, water and electric systems; it advances funds for seed, fertilizers and other supplies; it finances the purchase of stock for breeding, feeding or dairy purposes; and it is the central figure in executing the program for the growing of technical crops, such as cotton, flax, hemp, oil seeds and sugar beets, for industrial use or export.

The last bank of the "big four" all-Union institutions is the Coöperative Bank, devoted particularly to the needs of the coöperative societies, consumers and producers, which now have some 75,000,000 members. This bank finances capital construction undertaken by the coöperatives, including apartment houses, warehouses, foodstuffs processing plants (flour mills, canneries, bakeries, etc.), retail distribution units (shops, booths, stands), vegetable gardens and storehouses, public dining rooms and kitchens and other socialized enterprises. It also finances the "work-artels," or associations of handworkers and artisans that formerly produced a large supply of certain kinds of consumers' goods and whose place has not been taken by large-scale industry. The share capital of the coöperatives has continually increased to over 2,000,000,000 rubles at the present time; and they form an important source of long term credit within their special field.

In a special class are the Soviet savings banks, government institutions, of

course, with some 60,000 branch offices in towns and villages in the U.S.S.R. These banks solicit the savings of the people, on which 8 per cent interest is paid. They have shown a steady increase in deposits in recent years to 1,410,700,000 rubles on January 1, 1933, while the number of depositors had grown to 25,026,900 on the same date. Besides acting as depositaries for savings, these banks also play an important rôle in the distribution of government bonds, from the sale of which a growing part of budget receipts is made up, this year 3,580,000,000 rubles, or about 14 per cent of total receipts.

When an issue of bonds is put on the market, the savings banks become centers of publicity and propaganda, and every effort is made by attractive interest rates, lottery prizes, etc., to persuade the depositors to turn their money over for bonds. The banks also sell these securities on time payments, exchange old issues for new and generally use every means to make each issue a success. That they succeed is indicated by the fact that the latest issue, the second series of the bonds of the Second Five-Year Plan, amounting to 3,500,000,000 rubles, was fully subscribed for in one week.

Workers and government employees make up over two-thirds of savings bank depositors, the balance being peasants, but bond sales are made largely (75 per cent) to the first group, peasants taking only about one-quarter of most issues. The savings banks in the villages are therefore under special pressure to persuade the peasants to become bond buyers, the policy of the Soviet Government being aimed at securing

support for its budget from all elements of the population.

In addition to the functions described, the savings banks also assist in the financing of local construction projects, aid with loans the budgets of the towns and villages and otherwise act as a limited source of credit. They also collect premiums for group and other insurance, where individuals purchase policies of one kind or another, or socialized units protect their property, stock or crops in this manner. The banks are the financial advisers of the workers and peasants.

It may be seen that in the Soviet Union the banks play a part of increasing importance in the economic life of the people. Industry, agriculture, the coöperatives and the individual man or woman use the banks in constantly growing measure; while the government depends on them to keep the gigantic state machine in operation, to collect from the people their surplus funds, to inculcate the principles of intelligent accounting, on which the stability of the financial well-being of the state depends, and to act as agencies of the government in many other activities. It is believed by the Soviet authorities that the four years since the financial reform of 1930 have seen great progress made in socialistic finance, as interpreted and applied by those authorities, and that as time goes on the huge industrial machine will operate with ever-increasing efficiency. In this advance the rôle of the Soviet banks is of continually greater prominence and forms an interesting subject for students of socialism or state capitalism as in operation in the Soviet Union.

Interest Rates Seek Lower Levels

Since the completion of this latest survey, rates have moved steadily downward in all parts of the country

By FRANK W. SIMMONDS

ONE of the phenomena of recovery during recent months, frequently commented on by monetary economists, is that it has not so far been accompanied by any appreciable expansion of credit. This is the first time in our economic history that this has happened. The usual pattern of recovery has been expanding business accompanied by an increasing number of requests for credit, and consequent expansion in loans.

This time, on the contrary, the first year and a half of recovery (if this be recovery) has been accompanied by a further decline of bank loans, interest charged on loans and interest rates paid by banks on deposits.

In the effort to ascertain how far this trend has gone in the field of interest paid on deposits, the Bank Management Commission of the American Bankers Association recently sent a questionnaire to several hundred clearinghouse associations.

Tabulating the replies from those who reported on a comparable basis in April 1933 when the Bank Management

Commission made a similar survey, it is found that the trend of interest rates is definitely downward, the reduction in the period being between $\frac{1}{2}$ per cent and 1 per cent.

The sharpest decline, the figures reveal, has been in the rate of interest paid on certificates of deposit. Whereas in April 1933 the average rate being paid by banks in the clearinghouse associations questioned was 2.93 per cent, by October 1, 1934, the average rate had dropped to 2.16 per cent.

The drop in rates paid on time deposits was very nearly the same—from 2.93 per cent to 2.2 per cent—as might be expected from the similarity of the two types of deposits. The reduction in interest paid on savings deposits was less abrupt—from 3.13 per cent to 2.56 per cent.

On Christmas Club accounts the figures are less comprehensive, since the banks in half of the clearinghouses responding did not carry this type of account. Moreover, in 24 of the 55 clearinghouses in which the clearinghouses do have Christmas clubs the



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In this map, averages of rates are computed on a clearinghouse basis. The averages would be considerably lower if they were based on volume of deposits

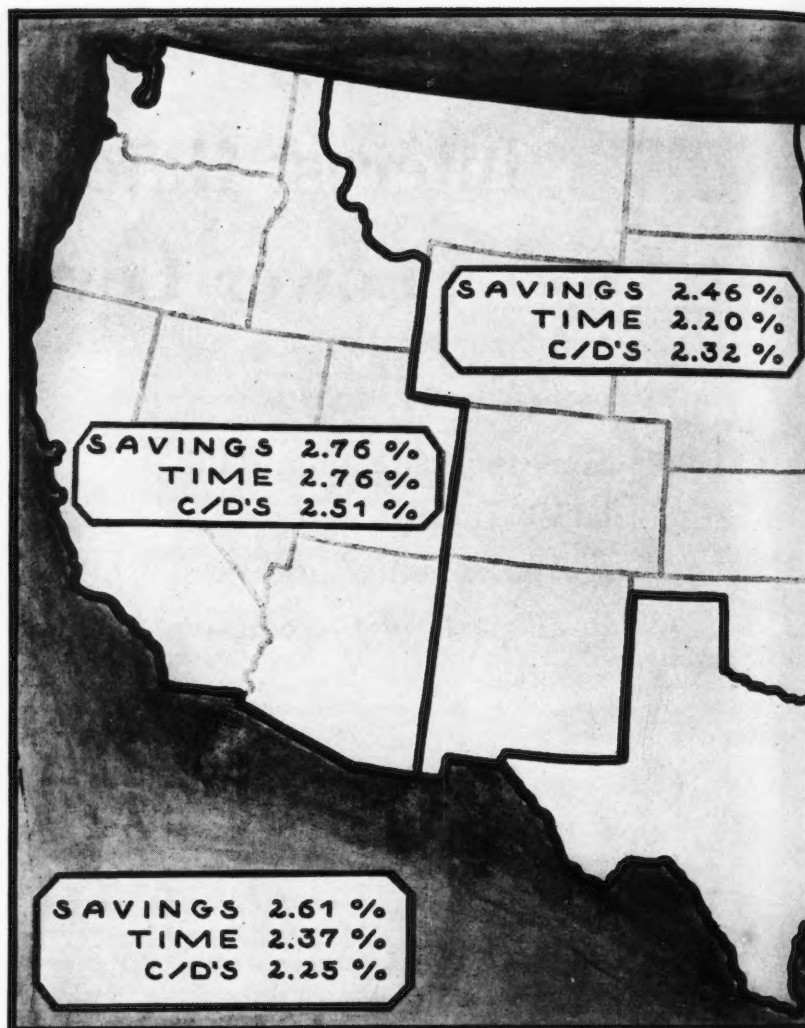
practice of paying interest on such accounts was discontinued at some time between April 1933 and the present. Consequently their figures cannot be included in the computation of an average rate. In one clearinghouse where the banks either had no Christmas club in April 1933 or paid no interest on such accounts if they had them, the payment of 1 per cent has since been instituted, but these figures also cannot properly be included in the average.

The information submitted by the remaining 30 clearinghouse associations shows a drop in the average rate paid on Christmas club accounts from 3.06 per cent in April 1933 to 2.57 per cent on October 1, 1934.

Moreover, at least 5 per cent of the clearinghouses replying to the questionnaire volunteered the information that the trend of interest rates was still downward and that their banks either had further reductions under consideration or were actually planning to make such reductions.

Some individuals, on being shown these figures, would probably remark that they are just another example of the unwillingness of banks to cooperate in the program to promote recovery by increasing purchasing power—that they are an attempt on the part of the banks to pocket the reduction at the expense of depositors.

Yet these reductions in interest paid do not equal the reductions which banks have already made in the rates charged customers for loans. Figures compiled by the Federal Reserve Board show that the average rate charged customers on loans by banks in New York City dropped from 4.33 per cent in April 1933 to 3.33 in August 1934 (the latest date for which figures are available). Similar figures for eight northern and eastern cities show a decline from 5.09



per cent to 4.12 per cent; and for 27 southern and western cities from 5.68 per cent to 5.05 per cent.

If further proof were necessary that the reduction in interest rates is demanded by conditions it could be found in the record of bank profits—or the lack of them—in recent years. Net profits for the banking system as a whole disappeared before the end of 1931 and have not yet reappeared. On the contrary, all the figures published tend to show that the banking system as a whole is still in the red.

This absence of profits alone would normally stimulate banks to lend more, were it possible for them to do so on a satisfactory basis. The picture which has been painted by some misinformed

persons of the banker refusing to make loans out of pure cussedness has no foundation in fact; also, it is totally out of harmony with that other picture of the banker as a grasping individual, interested only in profits.

As a matter of fact, even before the New Deal began, quite a number of banks were ready, willing and anxious to make additional commercial loans. They still are. They have been all this time. But, while the number of people and firms wanting to borrow money is large and growing, the number of good borrowers (to whom it would be safe for the banker to lend his depositors' money) has been pitifully small.

This is by no means the fault of the banks. Mainly it is the result of the de-



In the lower left hand corner of the map the averages for the country are given, on the basis of clearinghouses, not deposits

But banks, noting that their finished product (credit) was not moving in adequate volume at the prices prevailing, that inventory (excess reserves) was piling up, and that it could not be disposed of in the field of Government bonds except at a ruinous sacrifice, did just as other businesses do. They reduced prices (rates charged to customers on loans) in the attempt to stimulate demand. Failing to secure any appreciable response to this move, they attacked the problem of making income and expenses meet from the other side; they took steps to purchase their raw materials (deposits) at lower prices.

The Government extended a measure of assistance to banks in reducing costs through lower interest rates. The Banking Act of 1933 prohibited the payment of interest on demand deposits by member banks of the Federal Reserve System, and empowered the Federal Reserve Board to fix maximum rates of interest to be paid on time and savings deposits by member banks. Subsequently, through action by the F.D.I.C., these regulations were extended to apply to virtually all banks.

Regulation of interest by Government authority having thus been tried for more than a year, it was thought well to ask the clearinghouse associations whether they would favor further action along this line. Two questions were included in the questionnaire: whether the clearinghouses were satisfied with the results obtained by voluntary coöperation; or whether they preferred Government fixing of rates.

An overwhelming majority expressed themselves in favor of voluntary coöperation, even where the results of attempts at coöperation had not been entirely satisfactory. The reasoning behind this attitude is set forth in the following typical answer:

"There are a good many bankers in this section and, doubtless, elsewhere who look with favor upon Governmental fixing of maximum interest rates, not

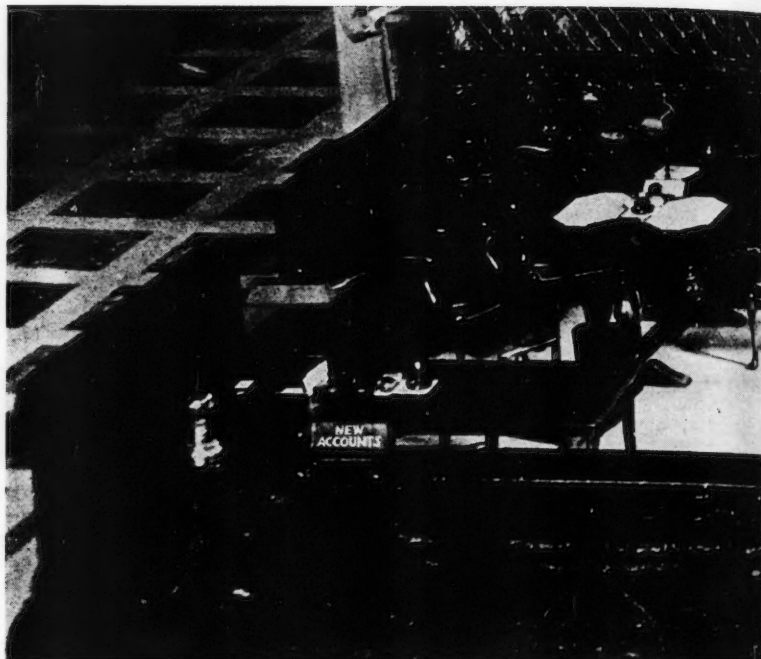
pression, which has weakened many companies to the point where they are no longer good credit risks. Partly it is the result of the economic emergency which created a number of new credit agencies (the R.F.C., the Farm Credit Administration, the Commodity Credit Corporation, the Federal Farm Mortgage Corporation and others) to furnish credit to borrowers who should properly have come to the banks.

Finding it difficult to expand commercial loans on a sound basis, the other normal recourse of the banks for profitable investment of the funds entrusted to their care was to Government securities. Here, too, they found that various recovery policies had worked against them. The attempt to force an

expansion of credit through the creation of excess reserves led to such heavy purchases of Government securities by the Federal Reserve banks that the yields were reduced to negligible proportions on the short term issues which are most suitable for bank investment. The theory behind this operation was that the banks, seeing excess reserves piling up in their vaults, would strive to expand their loans. The consequent "creation" of credit money, by increasing the amount of the circulating medium, would further recovery by advancing prices. Perhaps the theory would have worked out in practice if there had been enough demand for credit from borrowers who could be counted upon to repay their loans.

EFFECT OF REDUCTIONS ON DEPOSITS

SEVERAL of the clearinghouse associations expressed the belief that interest rates on deposits should be reduced in their communities but had not been because of fear that confidence in banks would be impaired, or that money would be transferred from banks to postal savings or to neighboring banks



ANGELL

because they think the Government is all-wise, but because in explaining the downward trend to depositors it is nice to pass the 'buck' to 'Uncle Sam'. It seems to some that these men overlook the results that may eventuate—so standardizing gives less individuality to the private bankers and hastens the day when they will be swallowed up by the large agency behind whose skirts they now shield themselves.

"In other words, the more we look to the Government for such regulatory procedure, the more we will get, and the more the general public will come to believe we are less and less essential."

Particularizing the fields into which regulation might extend, one group expressed the fear that "if the Government sets the rate on bank deposits, they will no doubt set rates on loans." Another group was apprehensive lest, under Government authority "a rate might be made to suit city banks, which would put the country banks at a disadvantage."

A middle ground was taken by a clearinghouse association which wrote:

"Our members ordinarily would not prefer to have maximum rates of interest established by Government authority because the exercise of such authority causes further intrusion of the Government into the realms of

banking and business. However, in view of the fact that the Federal Government has already taken upon itself, by virtue of the Banking Act of 1933, the function of establishing maximum rates of interest, no ill effects would accrue at the present time if the Government were to establish a lower maximum rate of interest than it has hitherto established."

The difficulties which lead some groups to prefer Government action to non-existent coöperation were sketched in the following reply:

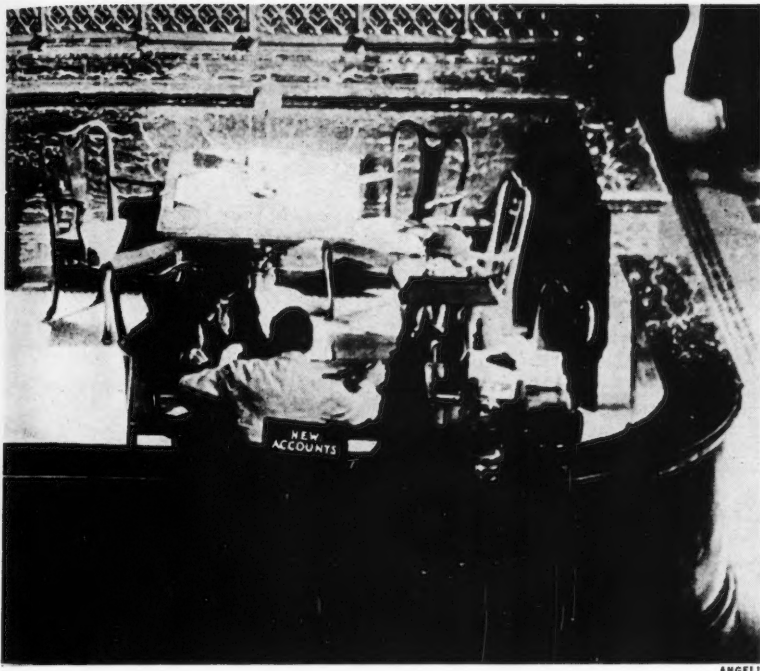
"There are three banks in ——. One of them does not wish to reduce the rate from 3 per cent to 2½ per cent. Another is willing to do so providing the other two banks insist on it, but prefers not to. The ——— Bank, of which the writer is cashier, has urged the reduction for several months past, believing that the rate of 3 per cent is not justified, with the low returns from invested funds and the fact that loans are diminishing and it is not easy to find good new loans. All three banks have too large a proportion of their deposits in savings accounts. It is the belief of this bank that, because of the difference of opinion in so many localities, it might be best to have the rate set by Government authority."

A compromise was suggested by a

group which believes that "where local clearinghouse associations coöperate 100 per cent they should determine rates but when unable to do so then the Government should compel them to comply with the rate as set in the community adjoining those who have properly operated clearinghouse associations."

In evaluating these responses it must be remembered that they come exclusively from clearinghouse associations already organized and in a position to coöperate. Many of them have been coöperating for years. It is to be expected that they would prefer voluntary coöperation. A poll of banks in unorganized districts, or where the local association is not a vigorous one, might show a larger proportion in favor of Government regulation. The demand for Government intervention almost always comes from communities where persuasive measures and coöperation have not proved effective. Whether such communities would constitute a majority, were it possible to question a representative number of them, is not clear from the information available. We simply point out that a response in favor of Government regulation was not a reasonable expectation from the groups questioned.

Why this is so is apparent from the figures compiled and already men-



ANGELL

DEPOSITS HAVE ACTUALLY INCREASED

REPORTS of banks which have made such reductions indicate that these fears are not well founded. Even where one bank in a town reduced rates while the others maintained them, no loss of deposits is reported. The typical report is somewhat as follows: "The reduction in interest so far has not affected us. In fact, deposits have increased."

tioned. Most clearinghouse groups had, even before April 1933, brought their rates on time deposits and certificates of deposits below the maximum of 3 per cent later set by the Federal Reserve Board. On savings deposits they were paying an average of 3.13 per cent, only slightly above the maximum later established. Regulation of rates by Government authority has not accomplished much for them which they could not and would not have accomplished for themselves.

The effectiveness of clearinghouses as agencies for the control of interest rates is even more plainly revealed by supplementary computations made from the replies received.

Among the clearinghouses receiving the questionnaire were some which had, in 1933, no clearinghouse rule on interest, but which had adopted such a rule before October 1934. These showed the most substantial readjustment of rates of any group. The average rate paid by them on time deposits dropped, in the 18-month interval, from 3.34 per cent to 2.68 per cent; the rate on certificates of deposit from 3.26 per cent to 2.3 per cent; and the rate on savings deposits from 3.29 per cent to 2.64.

The reports from another group which had, in 1933, a clearinghouse rule on interest but had abandoned it by

October 1934 showed a much smaller readjustment. The average rate paid by banks in these clearinghouses on time deposits dropped from 3.08 per cent to 2.75 per cent; on certificates of deposit from 2.75 per cent to 2.5 per cent; and on savings deposits, from 3.07 per cent to 2.85 per cent.

Even the clearinghouses which had no rule on interest in either 1933 or 1934 made a better showing than those which abandoned their rules. They show a reduction in the average rate on time deposits from 2.87 per cent to 2.25 per cent; on certificates of deposit, from 2.97 per cent to 2.15 per cent; and on savings deposits from 3.35 per cent to 2.75 per cent. This classification of clearinghouses having no rule on interest includes a number of rather large cities. The banks covered were probably influenced by their own cost studies to fix rates consonant with conditions.

One other fact, already well known but often forgotten, is emphasized by the figures compiled in this survey. That is, that there is a considerable variation in interest rates from section to section, due to the variation in the earning power of money. The range is from 1.46 per cent in the New England states, to 2.6 per cent in the southern states. It is this variation which makes it so difficult if not impossible for any

Government agency to establish one rate (even a maximum) which will be satisfactory to banks in all parts of the United States.

The Bank Management Commission survey reveals, then, that banks are in virtually as disadvantageous a position as previously. The move for higher prices has not included the price of credit; instead, all the efforts of the Government have been directed toward reducing the price of credit. Consequently banks have found it necessary to make similar reductions in the interest rates paid on deposits, and will probably make still further readjustments in the near future. In this move the amount of assistance lent by the Government has been negligible—at least so far as clearinghouse banks are concerned. The most effective agency for adjusting interest rates to conditions continues to be coöperation between the banks in a given district.

There is all the more reason, therefore, why attention should once more be directed toward the organization of banks into local groups (where they are not already so organized) to the end that the price paid for deposits may respond more promptly and more accurately to changes in the price of credit and those other factors which affect the return on earning assets.

The Public Debt

By E. C. HARWOOD

Director, American Institute
for Economic Research

THE technological field is not the only sphere of human activity where new inventions have introduced bewildering changes. Important alterations have also occurred in the monetary field since the days when a robber king could levy concealed taxes on an unwitting populace by clipping the coinage. While these changes have not apparently reduced the effectiveness of devaluation's illusory promises, they have introduced new and powerful means for tinkering with the "coin of the realm".

The building up of an inflationary progression by means of the printing press is too well understood to require elucidation.

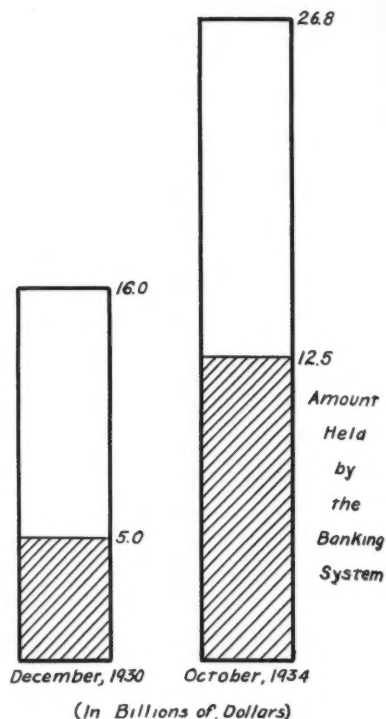
The other method by means of which inflation can be brought about is through the use of bank credits in the form of demand deposits subject to check. In general, this may be initiated either by the general public or through the efforts of government. An inflation of this kind, engineered by governmental agencies, involves the funding of Government deficits by the country's banking system, thus enabling the central power to spend more than is withdrawn from the business income of the country through taxation. Demand deposits, created and made available to the Government in this way, are a new origination of money; and, of course, are an artificial injection of purchasing power into the channels of business.

An example of inflation through private borrowing and an excess of bank credit originations in connection therewith is furnished by the course of events in this country from 1922 to 1929. The effects of this policy (it is appropriate to regard the easy money policy of the Federal Reserve banks during this

period as a vital factor) were the boom phenomena of 1929, which need no elaboration. The subsequent readjustment required for the establishment of normal conditions has proved so painful that devaluation has been adopted, not as in France's case in recognition of an existing situation, but in the hope of restoring conditions, which, by comparison at least, seem more nearly normal to those responsible for this action.

It is apparent that we are to have some degree of inflation in this country; in fact, the process has already been initiated. Therefore, it is of the utmost importance for the business man and investor to know how this inflation will probably be accomplished and when its effects may be felt. The means by which inflation will be accomplished are of importance because they furnish a check as to the probable outcome.

From the record of history, we are justified in asserting that an unplanned inflation, produced through private means and as an accompaniment of unwise business expansion, is likely to be corrected by a collapse of the unsound speculative structure. This causes liquidation of the excess bank credit extensions through bankruptcy and other means which do not involve a change in the banking system. On the other hand, Government-initiated inflation is quite apt to result in far reaching and permanent changes; in the first place, because

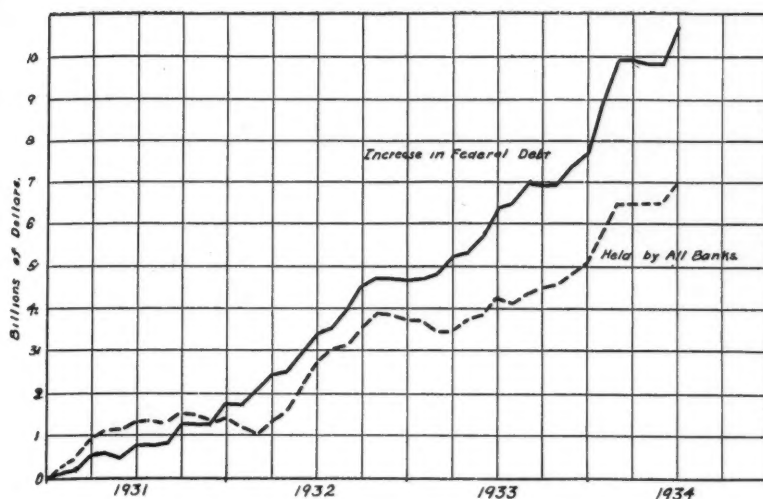


the Government burden of debt cannot be liquidated by the bankruptcy process (unless the currency is made worthless, as in the case of the German mark); and, secondly, because political expediency, especially in a democracy, seems always to choose the apparent immediate good, even at the risk of increasingly greater evil effects in the long run.

The danger of inflation which we are now facing is clearly that of the Government-initiated variety. Probably the best evaluation of tendencies in that direction can be made by a survey of Government financing during the past few years, and of the degree to which new Government debt has been absorbed by the banking system.

The public debt reached its last low point in December 1930. Since that time, there has been a tremendous expansion as the result of financing repeated Government deficits. In the charts which accompany this article there will be found the increase in these totals since the low point in 1930, just mentioned. Before analyzing these results, it may be well to explain briefly the source of this material.

The figures have been compiled on a monthly basis; and, for the members of the Federal Reserve System, there was little difficulty involved. These banks classified their Government securities separately from other investments, and the figures for the weekly reporting



Increase in the Federal debt and the amount held by banks

member banks made it possible to interpolate between the periodic bank calls (three or four each year). In the case of the savings banks throughout the country, it is possible to obtain the June 30 data from the annual report of the Comptroller of the Currency. Intermediate periods were obtained by straight-line interpolation. During the early part of the period shown, the figures are not available in the source mentioned, so it was necessary to compile them from the reports covering the portfolios of the individual banks as given by the state bank commissioners in their annual reports.

No attempt was made to estimate the holdings of United States Government securities by non-member banks of the Federal Reserve System, exclusive of the savings banks. The state reports do not usually separate the different kinds of investments for the small state banks, and it was considered impracticable to make estimates in these cases. Apparently, the total amount of United States Government securities held by state banks which were neither members of the Federal Reserve System nor savings banks was not more than \$250,000,000.

That portion of the United States debt not held by the banking system, as indicated here, is in the hands of various other institutions and individuals. The life insurance companies are a major factor; and, of course, there are

many smaller corporations as well as individual investment accounts which include holdings of Government bonds.

The Federal debt represented by Government securities has increased from \$16,000,000,000 at the end of 1930 to something over \$26,000,000,000 at present. The amount of these securities held by the banking system has increased from a little more than \$5,000,000,000 to \$12,500,000,000 in the same period. This tremendous increase is even more impressive when it is remembered that several thousand banks have been closed during that period, and that the bank deposits of the country have declined by nearly one-third.

Government security holdings of other institutions and individuals other than banks actually declined until the middle of 1931; and, since that time, the increase has been only \$4,000,000,000, as compared with an increase of \$7,000,000,000 for the banking system.

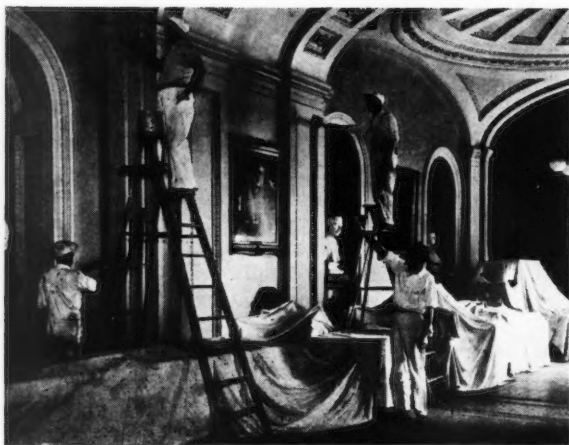
The public has been given the general impression that the increased holdings of Government securities by the country's banks mean increased liquidity and better banking conditions in general. The exact reverse is the case. It is perfectly obvious that no general liquidation of these Government security holdings could be made without breaking the price for Government bonds and impairing the capital of the banking system. On the other hand, it is also incorrect to assume that this entire increase in holdings of Government securities represents inflationary originations of bank credit for Government spending. It should not be forgotten that during the same period there has been a liquidation of other investments of the banking system, including loans

on securities to the extent of \$12,000,000,000 to \$15,000,000,000.

The actual amount of this increase in Government security holdings by the banking system which can properly be considered inflationary in its final effects is probably not more than \$2,000,000,000 at present. This estimate has been obtained by elaborate computations which would unduly extend this article if reproduced here. It should also be mentioned that, even though the banking system's purchase of Government securities, as indicated, may have made available \$2,000,000,000 of inflationary purchasing power to the Government, only one-half or less of that total has thus far actually been spent and thereby pushed out into the channels of business.

The principal danger which lies ahead is not a mere matter of the direct inflationary effects to be expected from the existing holdings of Government securities. The difficulty lies in the fact that, in order to preserve their position, the banks will find it necessary to support Government credit. Maintenance of the market value of these vast holdings has become essential to the banking system as well as to the Federal Government. Consequently, it is fairly certain that Government deficits can be financed by offering bonds to the banking system. This process can be carried on into the indefinite future, and the proceeds of these sales, in the form of demand deposits subject to check by the United States Treasury, can be forced out into the channels of business with inevitable inflationary effects. This is precisely the process which was followed by France for seven years, until the people of the country forced politicians to abandon that too easy solution of their difficulties. It seems not improbable that we are to follow a somewhat similar course; and, if that be the case, two practical conclusions are justified. The first is that a considerable degree of inflation and in the end further devaluation will result; and the second is that dissemination of knowledge along these lines and a more general understanding of the course of events is the only and best protection against carrying the process to disastrous extremes.

The prospects of a prolonged and severe inflation place grave responsibilities upon American bankers. As custodians of a large portion of the nation's savings, they are faced with the immediate question: what can be done to prevent the disasters which have followed unsound monetary policies here and elsewhere in the past?



INTERNATIONAL

A renovated Capitol will await the new Congress



WIDE WORLD

The assassination of King Alexander and Foreign Minister Barthou shocked the world

The Month



INTERNATIONAL



WIDE WORLD

RIGHT OR LEFT?

Business, seeking reassurance, learned that the Administration was working for a labor truce, favored higher prices, minimized inflation possibilities, and recognized "fair private profit" and the value of individual initiative. Above, the President as he addressed the nation on September 30; left, Donald R. Richberg, N.R.A. head, talking to reporters

BANKING

The Condition of BUSINESS

THE banking and business situation in the United States in these mid-Autumn days may be considered the soundest it has been for the past three years if for no other reason than the fact that the principal contending forces are facing matters on a basis of realism. There is less of a spirit of experimentation on the part of the Government and less of a spirit of intransigence on the part of business.

This by no means indicates that the two have reached an understanding, but it does mean that both are convinced that an understanding is necessary and that both are trying to reach it. The Government has commenced to realize that its plans for ending unemployment and the heavy drain upon the Treasury can succeed only if long term capital can be induced to turn to the heavy industries, and has been endeavoring to satisfy business interests that its plans are entirely consistent with investment safety.

It must be admitted that so far business has shown a disposition to wait a little longer before making the plunge. Nevertheless more of a spirit of accommodation and coöperation is apparent. This is especially true of banking. The latter, in fact, is taking the lead in a general endeavor to get business and the Government together in a satisfactory recovery program.

The approaching election undoubtedly serves to hold back business; not that there is much doubt about the general complexion of the new Congress but that the particular shade of that complexion is important. Such matters as labor's demand for a 30-hour week, for more stringent code requirements as to hours and wages generally, and the whole social welfare program are issues to be met. It is rather doubtful that long term investments, especially in industrial lines, will revive until the prospects in the way of reform are a little less obscure.

Again, it is not so much a question of the direction legislation will take as of the limit to which it will go. The same is true of the matter of unemployment relief, expenditures on public works and the mounting budgetary deficit. No one now expects a balanced budget next year, but business men

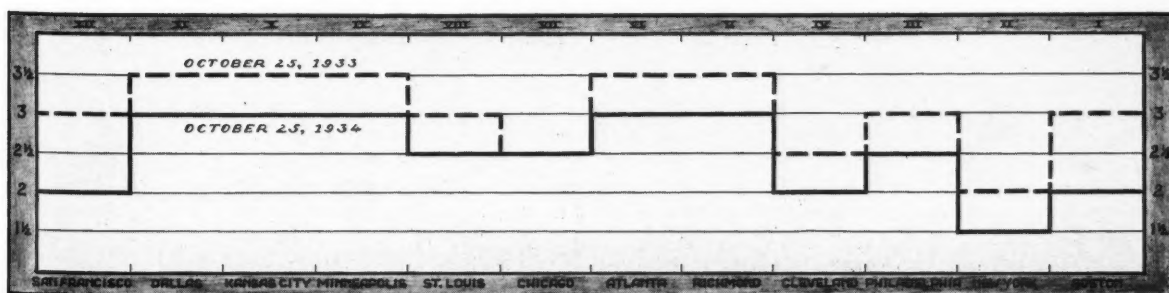
have become rather insistent that a limit of some sort be set. During the past month practically every business organization of any prominence in the country has registered its anxiety in these matters and the Government has endeavored to give assurances which would satisfy them. These assurances, including what is expected to be a radical revision of N.R.A. policies and practices, have done much to allay anxiety, and on the whole the effect on business has been encouraging.

MONETARY MATTERS

IN spite of repeated official assurances that no inflation of the currency or further devaluation of the dollar is contemplated, it is a bald fact that fear of inflation or further devaluation or both actually persists. The manner in which casual or mistaken statements of persons in high authority made during the past few weeks have been seized upon by security and commodity markets as occasion for a rise or fall in prices serves as ample demonstration of the fact. Undoubtedly one reason for this extreme sensitiveness of American markets to such suggestions is the reaction the latter have abroad, and this foreign reaction in turn arises from the fact that, as foreigners see things, inflation is more or less inevitable and is in harmony with policies previously followed by the Government.

Foreign comment upon the monetary situation in this country is filled with such words as "obscure", "uncertain", "erratic", even "fantastic". Much of this comment is clearly wide of the mark, based upon misinformation and misunderstanding, and some of it is quite clearly interested in beating down the value of the dollar. However, when one reviews the gold devaluation policy and the silver policy and considers them in connection with the Thomas amendment on the one hand and the mounting deficit in the Federal budget on the other, foreign sentiment can readily be understood and it can be appreciated how and why the international value of the dollar is affected by anything on this side of the ocean which gives the slightest suggestion that the

Discount rates in the 12 Federal Reserve banks



expected period of inflation is about to be inaugurated.

The Treasury's call for the refunding of \$1,870,000,000 of Fourth Liberty bonds by the 15th of next April is generally taken as ample assurance that inflation will not be permitted in the interim. Indeed, talk of inflation has been promptly discouraged by the Federal authorities. This refunding or redemption call is undoubtedly a pledge given by the Government that conservative policies will be followed for a time at least. On the other hand it must be noted that so far the call is for redemption and definite plans for refunding are yet to be announced.

It must also be considered that there is over \$2,100,000,000 of cash in the Treasury and a \$2,000,000,000 gold profit in the stabilization fund which, under the declaration of the Secretary of the Treasury, is ultimately to be used for the retirement of the public debt. The Government is in a position to redeem these $4\frac{1}{4}$ per cent bonds outright if it is so minded. There is no likelihood that it will do so; rather the prospects are that a plan of refunding along the line of the operations completed in the past two or three weeks will be announced in due time.

PRICE RAISING

PROBABILITIES indicate that the Government will follow as conservative a policy in monetary matters as political exigencies will permit and, while the price raising policy announced by the President is in the offing, that policy will not be pursued further by monetary manipulation. It seems probable that the fear of inflation will be gradually allayed, but in the meanwhile it is a definite obstacle to recovery financing.

The policy of price raising, whatever the means adopted for the purpose, also gives rise to considerable misgiving. Merchants and manufacturers generally are in favor of higher prices if they can be made to stick, but it is pointed out that commodity price advances must be met by increased wages and profits if consumption and production are not to be affected adversely. It is pointed out that the high prices which attended the industrial revival of the early Spring were largely responsible for the falling off in trade during the Summer. On the other hand a leveling out followed by a slight lowering of prices, which commenced in the week ending September 4 and which has continued ever since, have undoubtedly played a major part in the continued fair level of retail and wholesale trade, which is the chief encouraging feature of the entire business situation.

Accepting all these fears as real obstacles to recovery there seems to be little question that there is more of a disposition on the part of finance and industry to discount them and to coöperate as far as possible with the Government. This certainly is true of banking. The refunding of Fourth Liberties during October is counted a substantial success and this success was largely due to the disposition of the banks to aid in the process. Last June 30, member banks in the F.D.I.C. held Government or Government-guaranteed securities in the amount of \$10,295,709,000, which was approximately 24 per cent of their entire resources or nearly 33 per cent of their total loans and investments. In addition the Federal Reserve banks hold \$2,430,000,000 in Government securities. The mutual savings and private banks and banks not in the F.D.I.C. increase the total. The holdings of the banks and the Reserve System together account for substantially half the present public debt of the country.

Nothing like this is known in any other important financial country. In Great Britain, for example, the total hold-



KEYSTONE

"... assurances, including what is expected to be a radical revision of N.R.A. policies and practices, have done much to allay anxiety, and on the whole the effect on business has been encouraging." Above, left, Donald Richberg, director of the Industrial Emergency Committee, and S. Clay Williams, chairman of the National Industrial Recovery Board, two agencies that constitute part of the revised Recovery Administration

ings of securities and bills of the 10 clearing banks at last accounts amounted to £774,000,000. Much of the £550,000,000 of securities held are doubtless those of the Government. Possibly two-thirds of the £224,000,000 in bills may be Government bills. Thus probably not more than 7 or 8 per cent of the public debt is held by the banks. In France the proportion is even less, being confined almost wholly to discounted bills. This support of the Government by the banks in this country is increasing rather than diminishing. Of the \$4,500,000,000 increase in the public debt in the last fiscal year member banks in the Reserve alone absorbed \$2,388,468,000. It is the demand from the banks and the support given the market for Government securities by the banks which have maintained the prices of Government securities at current high levels in spite of recurring periods of doubt on the part of investors generally.

This coöperation of the banks with the Government extends to their support of Government agencies and state and municipal governments. During the quarter ending October 1 new capital financing amounted to \$440,000,000, of which \$36,000,000 was corporate financing, \$145,000,000 was for states and municipalities and \$259,371,400 was for

agencies of the Government, embracing \$149,111,100 in short term bonds of the Home Owners' Loan Corporation offered the public on a bid basis in August and \$100,260,300 for the Federal Farm Mortgage Corporation offered the public in July, intermediate credit banks taking the rest. The greater part of all these issues was taken by the banks, forming the major part of the \$330,000,000 increase in their investments other than in direct Government obligations which occurred in the quarter.

Recent trends in banking show decided unevenness which can be accounted for usually by local conditions. The end of the third quarter of the year was marked by the voluntary publication of condition statements by a considerable proportion of the banks, especially in New York and the larger cities. Statements of individual banks, including several of the largest in the country, were especially significant in showing a mixed trend, though the quarter's developments are best indicated by statistics covering the operations of reporting member banks. Large individual banks in New York City showed material deposit decreases in the quarter, partly explained by the large decrease in loans on securities, but the New York banks as a whole showed an increase of \$131,000,000 in time and demand deposits in the period, indicated by the member bank report covering the period of July 3 to October 3. Their loans on securities in this time decreased by \$348,000,000, reflecting reduced activity in the securities markets and lower security values. "All other" loans increased by \$97,000,000, the net decrease in all loans being \$251,000,000. Holdings of United States securities decreased by \$134,000,000 while other security investments, which, as above indicated, include a large proportion of bonds guaranteed by the Federal Government, increased by \$159,000,000.

Reporting member banks as a whole, however, showed rather more consistent figures, perhaps because of wider distribution and more general averages. Net time and demand deposits increased in the quarter by \$508,000,000 and by October 10 the increase was \$632,000,000. Loans and investments increased by only \$50,000,000, investments increasing by \$294,000,000 and total loans decreasing by \$244,000,000, but there was a further increase of \$13,000,000

by October 10. In loans there was a decrease of \$509,000,000 in those on securities and an increase of \$265,000,000 in "all other" loans which increased to \$277,000,000 by October 10. Reserves with the Reserve banks increased by \$108,000,000 and cash in vault increased by \$22,000,000 in the quarter, increasing to \$194,000,000 and \$39,000,000 respectively in the following week.

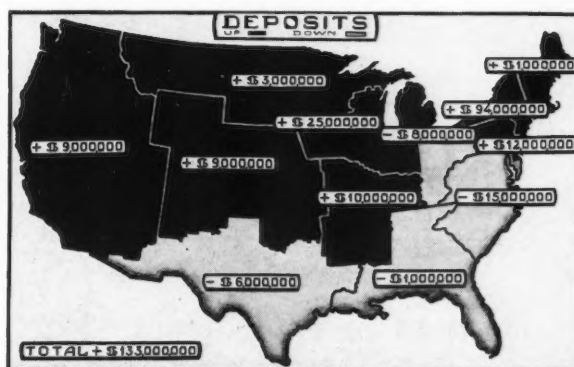
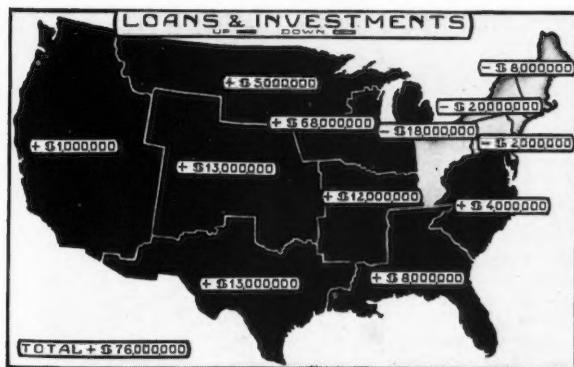
The most notable feature of the statements is the increase in miscellaneous loans ordinarily going to commerce and industry—notable not only because of the increase in the profitable placing of funds, in itself, but in its implications as to the general business situation. The increase in these loans in the banks as a whole commenced in the week of July 11, and between that date and October 10 the spread was \$306,000,000, marked by a steady advance from week to week. The increase seems to be widespread. Loans in the Kansas City district were down slightly, those in Minneapolis were reported stationary but in every other Federal Reserve district there was an increase. What relation this has to business activity is somewhat doubtful. Deposits have increased, money supplies have increased, loans have increased, but the Reserve banks report that the velocity of deposits has decreased around 14 per cent since the beginning of the year, at which time it was running from 15 to 20 per cent above the low average which prevailed during the dark days of the Spring of 1933.

THE BUSINESS MAP

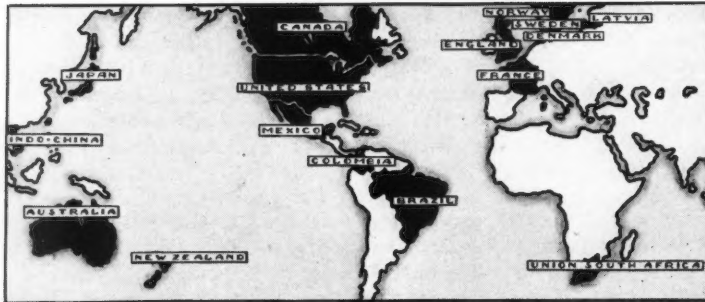
BUSINESS on the whole has been, as a banker has expressed it, "as good as good business men expected." Trade has picked up seasonably but little if any more. There has been no sudden improvement and none is expected. Little immediate improvement in the construction and capital goods industries is anticipated in the immediate future. Activity in industry is largely confined to consumption goods industries. Reduced crop movements, following a reduction in general freight movements in the Summer let-down, have reduced railway earnings, already at a low point, with the result that demand for betterments and equipment so badly needed is still inactive, with a dragging effect upon the equipment and machinery industries.

CHANGES, September 12 to October 17

(By districts, from figures of reporting Federal Reserve member banks in 91 leading cities)



Monetary Instability



1930—The League of Nations Financial Committee reported 16 nations as redeeming notes in gold only



1934—Six nations continue to uphold their established gold standard systems



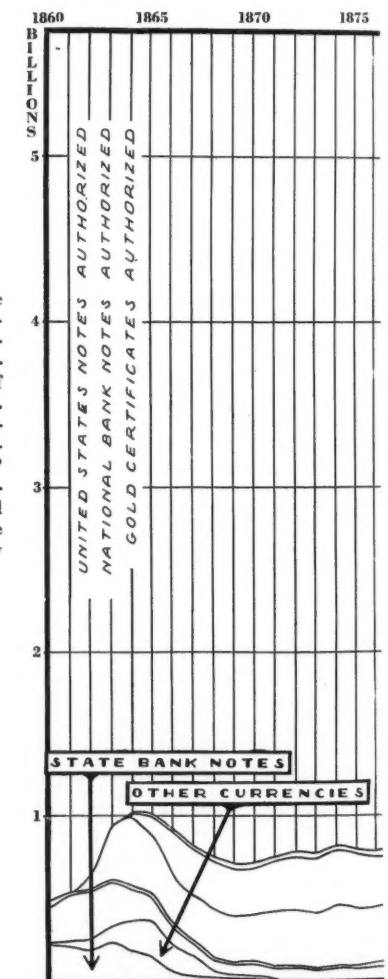
*When Politicians Bolt
They Cannot See the Pitfalls*

**POLITICAL CONTROL OF THE
COMMONWEALTH BANK MEANS INFLATION**

**TO STOP THIS
Vote for
LYONS GOVERNMENT
SUPPORTERS**

THE SYDNEY, AUSTRALIA, BULLETIN

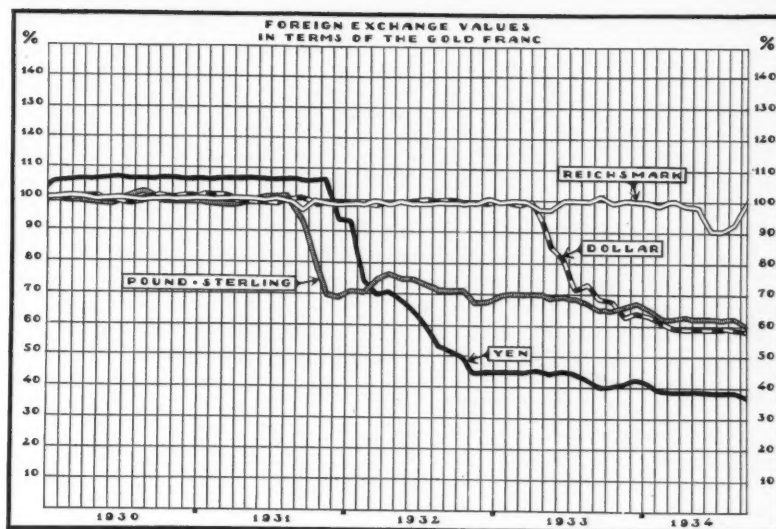
THE DOLLAR—The 10 different currencies which constitute the dollar represent 142 years of monetary history. Managed today under an "inconvertible gold bullion" system it is a somewhat complicated exchange unit. The chart shows money in circulation.



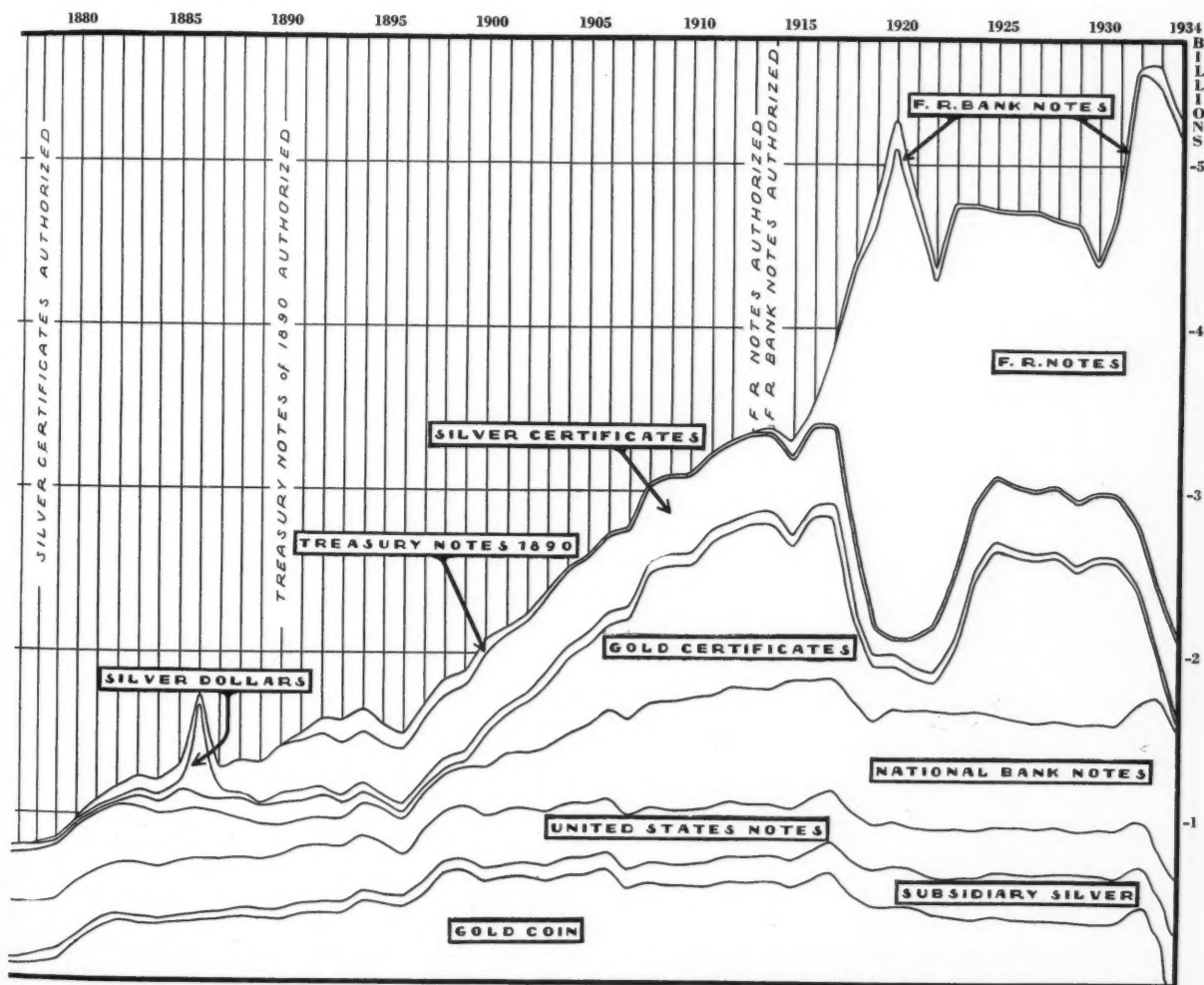
INFLATION—No chart could picture the political uncertainties to which money is being subjected today throughout the world.

BANKING

HOPES of international stabilization had to be deferred when America in 1933 served notice on the London economic conference that she could not then consider such a step because she had not yet worked out her own monetary destiny. However, the memorandum which the Department of Agriculture presented to the International Institute of Agriculture suggested "international monetary coöperation as a means of eliminating one of the principal motives existing at the present time for the imposition of trade barriers."



FOREIGN EXCHANGE—Devaluation of major currencies began in 1931



Government Banking

THE extension of credit to business by the Federal Government through its various loan agencies has fallen off materially in the past few weeks although there is promise that the change in some lines at least is temporary. New credit has been put out at the rate of a little less than \$600,000,000 a month while repayments have reduced that amount by about half.

The Farm Credit Administration has made loans in smaller volume than in recent months, the states and municipalities lag in drawing upon the P.W.A. for loans allotted for public construction, and the R.F.C. counteracts its heavy new lending by heavy collections on previous advances.

There is a change in trend of some of this credit. In agricultural credits the trend seems to be toward less mortgage financing and more short term or banking credit as the short term loan agencies of the Farm Credit Administration are developed. On the other hand the R.F.C. proposes to use a rather large amount of money in long term real estate financing for the purpose of bolstering the real estate mortgage market. It is possible, though not probable, that the R.F.C.'s direct loans to industry between now and January, when the power to make such loans expires, will amount to more than has been anticipated. Increased outlays by the P.W.A. depend upon increased activity on the part of the states and their subdivisions.

LONG TERM RECONSTRUCTION

IT is still rather too early to estimate the practical results of the R.F.C.'s entrance into the long term real estate mortgage field. The corporation proposes to buy preferred stock and capital notes in trust companies specializing in mortgage loans with the intention of stimulating the organization of concerns for that purpose. Active efforts to organize such institutions were inaugurated early in October in line with the corporation's announcement at the end of September and it is understood that several concerns are in contemplation

Although the R.F.C. continues to lend more new money than any other single Government agency and will probably continue to do so as long as its lending life continues—presumably, until January 22—it is noted that the increased Federal credit now being granted is chiefly from the permanent agencies. Apparently, whatever may be the action of Congress in giving further lending power to the R.F.C. at the expiration of its present authority, it intends to stay in business. On October 15 the corporation announced that a five year extension on all outstanding loans would be granted where possible and desired.

—were, indeed, in contemplation before the corporation took formal action.

The plan is designed both to stimulate new construction for increasing employment and assisting structural material markets by furnishing mortgage money for the purpose, and also to enable distressed owners of mortgages, whether whole or split mortgages or mortgage certificates, to borrow to a reasonable degree upon these securities at fair interest rates rather than sacrifice them. The refinancing of mortgages will be encouraged where conditions justify and loans will be encouraged even so far as to cover advances for the reorganization and preservation of distressed properties for the protection of mortgage bonds or certificates, including second mortgages and equities where the holder has a real chance of saving his property.

How much stimulation of the mortgage business will be accomplished by the new plan of the corporation is uncertain. There is a possibility that considerable business might be developed by concerns in a position to lend money on guaranteed mortgage certificates, although bankers seem to agree that legislation authorizing the organization of companies for the purpose, such as an act passed by the New York legislature at its extraordinary session last July, is rather too indefinite for the purpose. In any event corporations so far proposed seem to have a much more limited object than the R.F.C. which hopes to put the entire real estate mortgage market on a sounder foundation.

In connection with its plan to stimulate the use of more credit inaugurated in the late Summer of 1933 the corporation agreed to purchase \$50,000,000 of capital notes in the Savings Bank Trust Company of New York—the savings bank credit pool organized at that time—and also agreed to lend a mortgage loan company, also organized by the New York savings banks, \$86,000,000 on first mortgages. The banks failed to call for any capital funds under this arrangement, however, and used less than \$15,000,000 in loans, more than two-thirds of which has been repaid. The corporation also from time to time has offered to lend large sums to qualified borrowers for the aid and protection of distressed mortgage certificate holders, but little has been actually done in that line.

One particular point to be noted in this new scheme is that the common stock of those concerns in which the R.F.C. buys preferred stock or capital notes will be allowed to participate on equal terms with the preferred stock in all dividends declared after due set-up of reserves and provision for the retirement of the preferred stock, and the preferred stock and capital note dividend and interest rates will be the same as that to banks. Rates to banks and insurance companies are soon to be lowered. Announcement has been made that on all outstanding R.F.C. subscriptions to preferred stock and capital notes in banks and trust companies and in new subscriptions up to the first of next January the rate after that date will be $3\frac{1}{2}$ per cent instead of the present 4 per cent. This reduced rate is to continue until April 1, 1939. Thereafter the rate will be 4 per cent, instead of the 5 per cent now prescribed, until all loans are returned.

In its short term loan business the corporation is keeping its funds rather well employed. Repayments in recent weeks have not been as rapid as they were early in the summer. In September the corporation collected about \$10,000,000 more than it put out, i.e., it put out \$247,987,976 and collected \$258,710,230. By reason of previous repayments, however, it was able to turn \$27,887,476 back into the Federal Treasury. During the month banks borrowed \$15,767,586 but paid back \$18,700,415 of previous borrowings. Railways borrowed \$221,386 of new money and paid back \$123,475 of old money; mortgage loan companies borrowed \$2,820,450 but paid back \$4,134,352. Building and loan associations stopped borrowing and during the month paid back \$3,242,493. Insurance companies also stopped borrowing but paid back \$556,847. During October, however, the corporation subscribed to preferred stock in insurance companies.

Subscriptions to preferred stock and capital notes in banks continue. During September the amount paid out by the corporation on this account was \$26,890,041 but a total of \$1,490,350 of such stock and notes were retired.

SCHOOLS—BANKS—CONSTRUCTION

THE heaviest new loans included \$22,300,000 to school authorities for the payment of teachers' salaries. New money in the amount of \$6,990,635 was advanced to 29 closed banks for distribution to depositors, raising the total advanced for this purpose to \$977,756,400 of which \$255,878,864 has been repaid—\$11,240,952 during September. Loans to self-liquidating construction projects increased by \$4,047,905 of new money offset by \$1,662,148 in repayments.

The heaviest repayments were from the fund for the orderly marketing of agricultural commodities. New money was put out totaling \$2,538,337 but repayments amounted to \$34,068,827, all except \$266,252 of which was on account of cotton loans by the Commodity Credit Corporation. The \$272,155,658 of loans on this account have now been reduced to \$81,537,613.

Two items in the list deserve special mention. One is the repayment of \$4,071,812 of the \$19,025,383 put out to

finance the sale of agricultural surpluses in foreign markets, notably, the sale of cotton and wheat to China and of cotton to Russia. The repayments included \$2,803,445 from Russia. Another significant item was the repayment of \$297,050 of loans to states under the Unemployment Relief Act of 1932.

Direct loans to industry in September remained small though there was some promise of an increase. In that month the corporation authorized loans to 73 concerns under the 1934 act in the amount of \$3,870,500, bringing the total authorized to \$13,019,750. Of this total, however, \$776,500, including \$421,500, was withdrawn or cancelled and only \$1,916,178, including \$1,642,338 in September, was disbursed.

There was little development of the direct loan campaign in October. The total figures up to October 12, as revealed by Chairman Jesse Jones, showed that 2,043 applications for direct loans had been received for a total of about \$93,000,000. Of these applications only 244 had been approved involving total commitments of \$14,897,000 and of which only \$2,375,000 had been disbursed. The R.F.C. board rejected 176 applications forwarded by the field agents and 97 cases were still pending. Field agents rejected 1,526 applications as unsound risks or because the applicants could not qualify for loans.

Under the old plan of extending such loans to industry through mortgage loan companies a total of \$18,841,075 has been authorized of which \$4,517,335, including \$342,696 in September, was actually paid out.

It is worth noting that the corporation has purchased bonds taken from states and municipalities by the P.W.A. in the amount of \$10,025,100 which were sold at public auction at prices netting a premium of \$123,327. It seems a logical inference that these securities could have been originally placed by the states and municipalities concerned to better advantage for themselves and the financial community if they had been sold to private investors.

CHANGING TREND IN FARM CREDIT

TOTAL credit extended by the Farm Credit Administration continues to decrease in line with the trend noted since June,

RENOVATION

The Government is taking the lead by putting many public buildings in better condition. Left, workmen on the Washington Monument in the Capital; right, steam-washing the statue of "Africa" at the New York City Customs House



ACME



CUSHING

but the decrease is largely in farm mortgages, and short term loans, seasonally considered, are holding up fairly well. There seems to be no doubt that the great rush in farm mortgage refinancing is over and that new business by the land banks and land bank commissioner hereafter will be in more modest figures. New credit of all sorts in July amounted to \$165,078,244 as compared with the peak of \$191,329,601 in June. In August the total was \$147,361,159 and preliminary figures show only about \$130,000,000 for September. In July the land banks and land bank commissioner made long term loans of \$117,011,626. In August the amount was \$108,879,532 and in September a little over \$87,000,000. This progressive decrease is due to several reasons, chief of which is the fact that the cream of refinancing has been skimmed and the process now runs into more difficult times as mortgage holders refuse to refinance good mortgages and the administration faces the necessity of dealing with the extremely bad ones.

One further reason for the slowing up of farm mortgage refinancing is that the liquidation of the joint stock land banks, which has formed a considerable part of the new business of the land banks, has proceeded to a point where the rise in the price of joint stock land bank bonds has brought them to full liquidation value, with the result that further liquidation means the banks must take their losses on bad loans without any means of recouping them. Since around half of the remaining assets of some of the banks are now in default, while default on the part of the banks themselves means receiverships, the difficulty of liquidation of many of them becomes apparent.

In July the intermediate credit banks put out net new credit, aside from rediscounts for the regional agricultural credit corporations and the production credit associations, in the amount of \$12,337,978; in August the total was \$12,178,200 and in September the preliminary figures show \$12,500,000. Regional agricultural credit corporations are estimated to have extended the same amount in September as compared with \$7,685,000 in August and \$13,021,000 in July. Preliminary figures show production credit association loans in September as a little over \$10,000,000 as compared with slightly more than \$12,000,000 in August and \$13,021,000 in July.

Inasmuch as this is the off-season for production loans these figures do not fully indicate the importance of the production credit associations in the farm credit set-up. The associations were not fully organized for the last planting season and will probably not reach their stride before next Spring when their volume is expected to reach twice that of the past season. In the meanwhile their business is likely to be increased materially by the ruling, as of October 6, that they may hereafter place loans on warehoused cotton.

Other short term funds for September are estimated at \$8,000,000 as compared with \$6,600,000 in August and \$15,900,000 in July. In round figures, short term and intermediate loans in September amounted to \$43,000,000 as compared with \$38,500,000 in August.

THE LAND BANKS

AT the present time the Federal land banks and the land bank commissioner are doing about 75 per cent of all long term farm financing in the country, but it may be noted that commercial banks are still getting a considerable share of the business and in recent months that share has been increasing. A survey conducted by the Farm Credit Administration through its county agencies covering April, May, June and



WASHINGTON EXAMPLE

A triangle of new Government buildings in Washington. Besides the national housing program now under way, the President is contemplating an extension of slum clearance and building efforts throughout the country

July of the current year shows that new farm mortgages written totaled \$588,667,412. Of this the land bank loaned \$244,641,200; the land bank commissioner, \$194,200,212; insurance companies, \$11,786,000; commercial banks, \$38,079,500; individuals, \$72,912,500; mortgage companies, \$8,105,500; joint stock land banks, \$1,528,500; and all others, \$17,414,000.

The significance of these figures can be appreciated by comparing them with the proportion of farm mortgages held by lending agencies at the height of the farm mortgage debt in 1928 when Federal land banks held 12.1 per cent of the total; insurance companies, 22.9 per cent; banks, 10.8 per cent; individuals, 29.6 per cent; mortgage companies, 10.4 per cent; joint stock land banks, 7 per cent; all others, 7.2.

THE HOME LOAN SYSTEM

THE Federal home loan bank system continues to be the Government's chief dispenser of credit. During the four weeks ending October 5 the Home Owners' Loan Corporation refinanced home mortgages in the amount of \$180,844,685. This compared with \$177,467,461 in a similar August-September period. On October 11 the total number of loans refinanced was 564,497 and the amount lent \$1,693,946,297. On that date the corporation had outstanding bonds and notes amounting to a little under \$1,690,000,000. This total of the outstanding issues included \$623,238,050 of original 4 per cent bonds guaranteed by the Government as to interest only; \$713,973,825 of Series A 3 per cent bonds; \$203,317,125 of Series B $2\frac{3}{4}$ per cent bonds; \$49,736,000 of Series C $1\frac{1}{2}$ per cent two year notes; \$49,843,000 of Series D $1\frac{3}{4}$ per cent three year notes; and \$49,532,000 of Series E four year 2 per cent notes. The A-E series are guaranteed as to both principal and interest. The bonds are issued in exchange for home mortgages but from 15 to 20 per cent of the face of each mortgage on an average is paid out in cash—partly to cover odd amounts in the mortgages and partly to pay taxes and similar charges against property.

EDITORIALS

The Budget

IT IS one thing to demand the balancing of the budget of the United States for the fiscal year 1935-1936 and another thing to balance it. Business realizes that there is no hope for approaching a balance of the Treasury's income and outgo for the current fiscal year, even making allowance for the \$2,000,000,000 needed for relief purposes as anticipated by the President in his budget message last January.

On the other hand a demand from the business and financial world that national expenditures and national income be brought into fair relationship with each other next year is practically unanimous. Perhaps no one realizes the importance of this adjustment of income and expenditures better than the more responsible authorities in Washington, but upon the latter is fixed the responsibility, as Mr. Richberg put it in an address in Chicago, of deciding "what expenditures can safely be reduced" and "what revenues can be obtained without oppressive taxation." With the Government such questions are certainly not rhetorical nor can they be predicated upon theory. The Government must deal with hard facts.

LESS THAN HEARTY

NEVERTHELESS it is a question whether the authorities in Washington are doing all that they think they are toward a sound fiscal policy. For the current fiscal year up to October 6 the expenditures of the Treasury, according to its statement for that day, amounted to \$617,704,673 in excess of its receipts. That is at the rate of a deficit of \$2,294,331,624 for the fiscal year, with the heaviest expenditures for relief yet to come, indicating on the basis of last Winter's relief expenditures a total deficit for the fiscal year of at least a billion dollars more than was anticipated in the budget message of last January.

This, too, in spite of the fact that the income of the Government from July 1 to October 6, including the fortuitous item of \$49,936,790 in seigniorage on the coinage of silver or issue of silver notes, was \$268,626,927 in excess of that in the same period last year. This increase in revenue was approximately \$100,000,000 in excess of that anticipated in the budget message.

The explanation of the Treasury and its defenders for a failure to balance the budget now and in the immediate future is that it is impossible to know at this time what demands will be made upon the Government for relief and recovery purposes. To some extent this is true beyond much question. The weakness in the argument lies in the fact that in this 14-week period the expenditures of the Government from the general fund—in other words, for the ordinary expenses of

the Government as distinct from the relief, recovery and other emergency expenditures—were \$28,777,082 more than they were for the corresponding period of last year. This increase occurred even though a very considerable portion of what are normally carried as expenditures for the ordinary purposes of Government, such as a fair amount of betterments of Government property, replacements in the Army and Navy establishments and a fair amount of public works, are now carried in the emergency expenditures.

Even the expenditures in this period last year were approximately \$25,000,000 above budget allowances. In the current year the Government also has been relieved of the occasion for considerable heavy ordinary expenditure, such as the support for the prohibition enforcement establishment. It is difficult to avoid the conclusion that the Federal Government is not using that degree of economy and restraint which its financial situation demands.

RELIEF

NOR is it at all certain that the position of the Federal authorities in the matter of recovery and relief is unassailable even upon their own grounds and accepting their own theories of recovery. Expenditures for relief through the Federal Emergency Relief Administration, the Department of Agriculture, the Civil Works Administration and the Emergency Conservation Work in the C.C.C. camps during the 14 weeks aggregated over \$576,000,000 as compared with less than \$75,000,000 in the corresponding period last year. About three-fourths of these expenditures were for direct relief.

One can appreciate the anxiety, if not impatience, expressed by Emergency Relief Director Hopkins a few weeks ago in his declaration that he is "thoroughly fed up on cities and states passing the buck to us." But what is being done about it? Over two-thirds of the public funds now being expended on direct relief are furnished by the Government in Washington. A year ago the proportion was about one-third.

THE WAY TO CONFIDENCE

IF the expenditures for public works be reduced as much as practicable in the current year and abandoned after the current fiscal year; if the outlays for relief be reduced to what is absolutely necessary over and above what the states and cities really can pay, there will be some light ahead and business and the taxpayers generally can look to the future with more confidence.

Even heavy financial burdens can be borne if their limit is known. A more definite limit seems possible than the authorities in Washington have been ready to admit. Fix that limit and the country can go ahead with confidence.

Banks and the Housing Program

Washington, D. C.

WITHIN eight weeks of the inauguration of the home modernizing and repair campaign, loans made by banks and other lending institutions were running at the rate of over \$30,000,000 a month—that, too, with machinery of the movement scarcely started.

Perhaps the most significant feature of the returns so far is that, for every dollar put out in the way of loans, the building trades report from two to five dollars in cash contracts as a result of the campaign. At the end of the first week in October, 8,059 banks and other loan institutions had made contracts with the Government under the loan guaranty or loan insurance provisions of the law to cover their advances, while a considerable number of banks report loans made before coming to an agreement with the Government under the Housing Act. About 400 banks a week are now coming into the system.

The real test of the success of the campaign, of course, is yet to come—may not come in its fullness until the building season next Spring. The Government's supervisory and educational organization is practically complete and is just getting into its stride. The heart of the movement lies in the work of the housing campaign committee in each community. For the purpose of directing and stimulating the work of these local committees, the Housing Administration in Washington, whose work is entirely advisory and educational and without any element of compulsion, has divided the country into ten field organizations and is completing the organization of one more regional division.

Most of these regional divisions embrace four or five states, but some of the larger states, like New York, Pennsylvania, Illinois, Texas and California, are divided into several districts. Each state or district is covered

by a regional or district director and with him is associated, more or less directly, a liaison officer of the American Bankers Association and a similar officer representing the United States Building and Loan Association League. There are assistant liaison officers for the banks in some districts. These regional and district officers work directly with the community committees. Up to October 3 there were 2,220 of these local organizations. On each one of these community committees is at least one outstanding banker or financier who acts as treasurer in raising money and carrying on the financial work of the local organization.

Bankers also, in many of the local organizations, head the entire movement and are largely responsible for the success of the local campaign, but there is no uniformity of practice in this respect. Aside from bankers the lead in the local campaigns is taken by industrialists—mostly other than those con-

Last July there was a vacant lot at the northeast corner of Park Avenue and 39th Street in New York. Then the New York Committee for Better Homes in America, in collaboration with the Columbia Broadcasting System, began the construction of a



cerned in the building trades. Next come department store officials, architects and engineers, about in the order named. The plan followed is to get the best man available for the work, all things considered.

Both the bank liaison officers and the regional and district directors travel over their territory aiding in the organization of the community committees, and, in the case of the former, aiding banks in the set-up of special departments to handle the class of loans contemplated under the Housing Act. The Housing Administration not only aids this work by printed information bearing upon home modernization and the procedure on the part of the building trades to further the work but also furnishes complete plans for banking departments to handle the loans in the most expeditious and economical way possible.

These plans have been worked out by practical bankers in the light of the experience of banks which have operated personal loan departments previous to and independent of the housing program. The organization of the local committees also has been worked out in the light of the experience of the Government in the campaign for stimulating the building trades carried on in 84 cities in 1932 and the early part of 1933 under the President's Emergency Committee for Employment.

In other words, the work being done in the present organization is not ex-

perimental but is based upon practical experience both of bankers and local business organizations. Among the literature being distributed by the administration are articles by active bankers describing how housing loans are now being made in cities ranging from 5,000 to 270,000 population.

It is notable that the lead in the current campaign in most cities has been taken by industrialists and merchants other than those directly concerned in the building trades—not that the latter are not interested, since their self-interest is manifest—but because the former are interested in the work as a stimulation to business generally. The reason for this is apparent, since the larger proportion of the outlay for modernization and repair goes into labor, and funds so expended go directly into local trade, largely in lines not connected with the building trades. Several building trade firms whose business is of national and even international scope are carrying on campaigns by radio and other media which are supplementary to the work of the Housing Administration. Stimulation of the building trades is, of course, direct. The effect of the campaign upon other lines of trade, though indirect, seems to be fully as important.

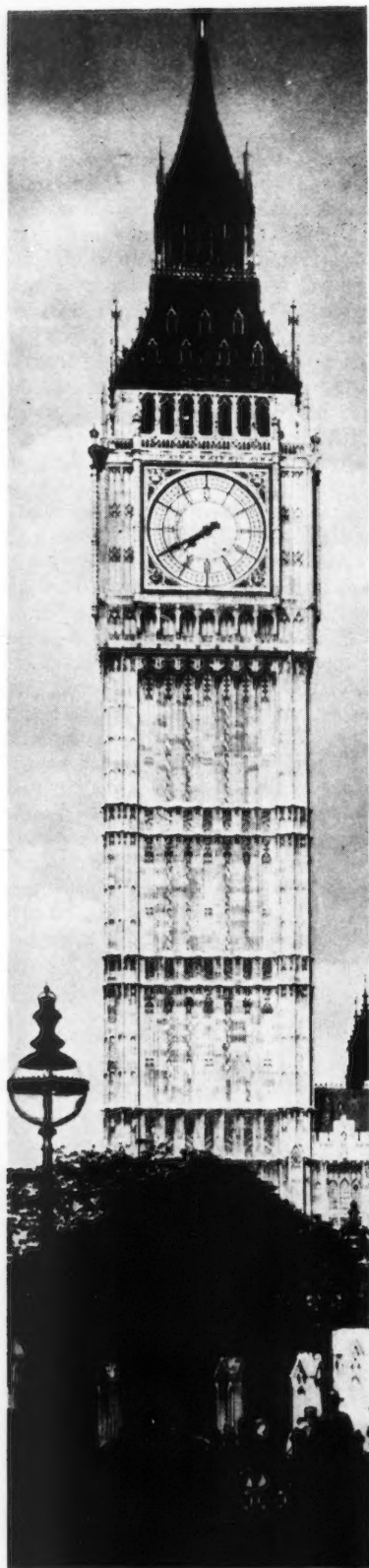
Arrangements for the insurance of mortgages upon residential buildings have not yet been completed and it will probably be well into the Winter before actual operations under the provisions

of the Housing Act with respect to long term home financing will begin. One reason for this has been the necessity of devoting all time and energy of the organization to what are regarded as the emergency features of the Housing Act so as to stimulate employment and get millions of workers off the relief rolls. It has also been found that successful application of the new law in its long time features involves a highly trained, technical organization of considerable intricacy, which cannot be formed over night.

On October 3, of the 8,059 institutions which had been brought into the housing campaign by formal agreement with the Government, 6,714 were commercial banks. These banks, although they constitute only about 44 per cent of the number of banks eligible for loan insurance contracts, have resources of \$34,250,000,000, or roughly 78 per cent of the total resources of all commercial banks in the United States. Other banks are rapidly joining in the campaign and there is no reason to expect that practically all will not, in the next few weeks, come to agreement with the Government and enter actively into the movement. In the meantime, however, it is evident that the campaign is being backed by the larger and stronger banks of the nation—rather convincing evidence that the movement is regarded by most bankers as in accord with sound business principles. —GEORGE E. ANDERSON

model home, "America's Little House." At the present time the building is so far advanced that the grounds are being landscaped. The last picture shows the house as it appeared October 17. Later it will be furnished and opened to the public





Big Ben

British Bank

By A. PATTERSON FIRTH

IN view of the many Federal and state examinations to which our banks are now subject, the average American banker must regard Great Britain a bankers' paradise when he considers that no bank examinations are made by government officials.

All that is necessary under English banking law is that a detailed half-yearly statement of the condition of each bank be prepared and certified by an independent, accredited firm of accountants, filed with the government and published in the newspapers.

Considering the widespread branch system of banking in England it is remarkable with what comparative ease an examination of one of the large banking organizations is made.

It should be noted that no security investments are made by the branch officers. All surplus funds which are not required by a branch office for lending purposes are transferred to the "head office" of the bank. Each branch is given credit for such funds transferred and is allowed day-to-day interest on the credit balance of its "head office account". Should its demand for loan funds exceed its surplus funds the branch office borrows from the head office and is charged day-to-day interest for the accommodation.

It will be seen, therefore, that with all security investments, the main cash reserve and the controlling records of the bank held at the head office, it is not difficult for the accountants to verify the accuracy of the bulk of the assets of the bank as of any given date. Subsidiary cash reserves held at the bank's larger branch offices in key cities are checked the same day by representatives of the accountants, and the cash in hand at all other offices is checked by the bank's own staff of examiners and by senior bank officials who attend at the branches for that purpose.

Thus a complete and effective check of the cash and investments of a large branch banking organization can be

made in one day. All that then remains is to check that day's branch figures against the controlling records at the head office, and verify the "float" between branch and head office, and branch and branch on the day of examination.

The independent accountants also make it a practice to pay surprise visits to the central and branch offices of the bank from time to time during the year, following much the same routine as our Federal and state examiners, and afterwards seeing that the branch figures tally with those reported to head office.

However, the branch banking institutions, while relying upon the independent accountants for the banks' official half-yearly report to the government, maintain their own staff of examiners or inspectors, as they are called.

It is obviously a physical impossibility for the general manager or even the district managers of the bank to make regular visits to every branch office, therefore the inspectors act as the general manager's direct representatives, making frequent visits to all branches, verifying all records, reporting on the operation of the branch and seeing that there is absolute uniformity of system and conduct.

Each inspector is allotted a district embracing from 15 to 25 offices, depending upon size and importance, and makes his reports direct to the general manager through the chief inspector. The inspectors are absolutely independent and responsible only to the general manager himself. They arrange their own schedules and attend and remain at a branch office as often and as long as they consider necessary. In the case of the central bank or large branch office examinations three or more inspectors will attend, the examination being in charge of the inspector in whose district the office is located.

After an inspector's report has been

BANKING

Examinations

The author was formerly a bank inspector in England

made to the general manager, the latter forwards a copy, together with his comments and instructions, to the manager in charge of that particular district whose duty it then is to see that the manager of the branch in question carries out the instructions.

As regards the cash, collateral and records, an English bank inspector's examination closely parallels one conducted by our Federal or state examiners, the first step being the checking of the cash in hand, followed by an examination of collateral held against loans. As previously stated, the bank's investment portfolio is held and controlled by the head office, the branch offices holding no securities in their banking departments except loan collateral.

However, in the absence of trust facilities it has been the practice of banks in England for years past to accept bearer bonds for safekeeping, the coupons to be detached, collected and credited by the bank as they become due. Therefore an inspector immediately takes charge of these securities and later checks them with the records after verifying the loan collateral.

From continuous association with the branch offices under his jurisdiction an inspector learns the weaknesses of the managers and staff and usually knows just which offices and departments are likely to require his attention most frequently, but to be effective his examination must not take any stereotyped form. The usual practice is for an inspector to make one very thorough inspection of each branch office every six months and devote the remainder of his time to shorter visits, more frequently to the branches where the management and operation is known to be in any way lax.

Attending at a branch office as the direct representative of the general manager of the bank, it is obvious that the work of an English bank inspector

should be much wider in scope than is that of our Federal or state examiners.

In the case of a unit bank in this country, the president is always available, therefore is able to direct the operation of his bank, study his employees and generally supervise the conduct of the bank in every detail. In like manner the inspector in England is required to know every officer and employee of the bank in his district and to make periodic reports to the general manager regarding each one's ability, industry, private habits, and qualifications for a more responsible position.

Whenever a senior position is to be filled, the inspector is asked to make his recommendations, first and second choice. These are given consideration alongside those favored by the district manager. When the necessity arises for the appointment of a branch office manager the district manager and the

inspector usually meet and discuss the relative merits of all likely men, the final choice being recommended to the general manager for his confirmation.

Also, an inspector is required to report on the condition and appearance of the branch bank building, outside and in, and to make recommendations regarding alterations or repairs. Should there be stores or offices attached to the bank property the inspector will call on the tenants at intervals, will inspect empty premises and assure himself that the bank's property is being efficiently handled by the branch manager and that every effort is being made to obtain desirable tenants for vacant premises.

In his own district he is, in a sense, the general manager of the bank, watching and reporting on any matter which may affect the growth and success of the organization.

President Roosevelt said he did not believe any intelligent observer could "accuse England of undue orthodoxy in the present emergency"; however, she is still fond of tradition. The picture shows a ceremonial in which the new Lord Mayor of London is the central figure



WIDE WORLD



STRAIGHT FACTS FOR STRAIGHT THINKING

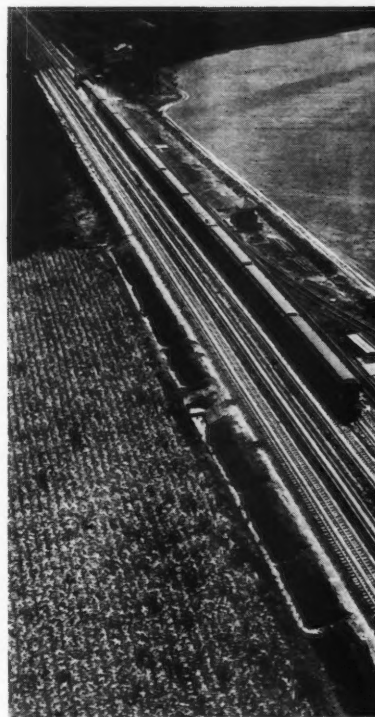
By *Newton D. Baker*

NEWTON D. BAKER, CHAIRMAN
NATIONAL CITIZENS COMMITTEE

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1. It is true that billions are being spent by the Government in order that people may not die of cold and hunger.
 2. But these billions, divided among the families in need, average for each family only about \$24 a month.
 3. And 70% of the free hospital services in the United States for the needy sick are provided by voluntarily supported hospitals. The sick among the unemployed number 48% more than among the employed.
 4. Likewise public health nurses, also supported by your voluntary gifts, report that 66% of all their visits in 1933 were in homes unable to pay for the service rendered.
 5. 30% more children have had to be removed from their own homes and cared for by voluntarily supported children's agencies.
 6. Two-thirds of all the arrests for crime involve persons between the ages of 15 and 24 years. Millions of boys and girls living under conditions destructive to character need the character-building services of your recreation agencies.
 7. A man may die of despair, as well as of hunger, for suicides, numbering 15,368 in 1928, grew to 20,927 in 1932. This shows that more and more people are ceasing to value the only kind of life they are able to attain.
 8. America cannot be rebuilt by relief measures alone.
 9. Your local community chest needs your support during this year of rebuilding human hope and morale. It supports hospitals, clinics, child-care organizations, character-building agencies and many other social services.
 10. When you give in your city, you strengthen the forces of civilization in the neighborhood in which you live.

1934 MOBILIZATION FOR HUMAN NEEDS

The Railroad Puzzlebox



FAIRCHILD AERIAL SURVEYS

From 1920 to 1929 the railways spent nearly \$2,000,000,000 a year for maintenance of way, buildings and equipment. Such expenditures fell to \$970,000,000 in 1932 and \$921,000,000 in 1933 and are running still lower the current year

ucts—almost all on necessities of life. Of course producers and consumers declare it must not be done.

But will the increase in rates actually help? The contention of the Government's representatives is that it will not, that the roads themselves will not be materially aided, while the effect of the increase upon other national interests would be very unfortunate and hold back business recovery. Coördinator Joseph B. Eastman points out that rates, instead of being too low, have been too high and that the Interstate Commerce Commission "has erred, if at all, in seeking too high rather than too low a level. It has ordered no general reductions since the 10 per cent cut in 1922 which was followed by a period of earnings unsurpassed in few, if any, periods of rail history."

Secretary of Agriculture Wallace opposes the increase as a blow to the American farmers and to business recovery. Shippers indicate that an increase in rates means that either they

WHETHER railway legislation will occupy the center, the right center or the left center of the stage in the coming session of Congress, it will be in the limelight. That much, indeed, was promised over a year ago. At that time a Federal Coördinator of Transportation was appointed, but he has not been allowed to coördinate. Since that time the need of coördination has increased; in fact, it is becoming desperate. The transportation question, especially as related to the financial situation of the nation's railways, is still a major problem with new perplexities, involving important Government policy.

It is also a problem of high finance. Member banks in the Federal Reserve System alone hold, or rather held on June 30, \$735,608,000 in the bonds of the railways. They hold securities in other lines of transport. The problem grows more serious with each passing day as railway and other carrier earnings fail to rise not only to a point where a proper return on investment can be had but even to a point where fixed charges can be met and property protected. Moreover, the railway situation is holding back business recovery.

Everybody realizes that the railways of the country are ill, but probably only those in the business or governmentally related to it realize how ill they are and what effect their illness has upon the nation's commerce and industry. On the first of October 21 Class I roads (roads with a gross income of over \$1,000,000) with a mileage of 40,565, were in the hands of receivers or trustees in bankruptcy. In 1932, 68 per cent of the total railway mileage in the country was operated at a loss of \$153,000,000. After running up a deficit of \$123,000,000 in the first half of 1933 they ended the year almost balanced. In the first eight months of the current year, however, 67.4 per cent of the roads operating a total of 250,000 miles of track had a loss of \$99,000,000 and 33 Class I roads failed to earn expenses and taxes.

All this costs the country as well as the railways. In 1929 the country's railways employed 1,702,000 people whose aggregate pay amounted to a little less than \$3,000,000,000. At present the number of employees is around a billion, while their aggregate pay is a little over \$1,500,000,000 a year.

In 1929 their expenditures for betterments amounted, in round numbers, to \$854,000,000; in 1930, \$873,000,000; in 1931, \$361,000,000; in 1932 \$167,000,000; and in 1933, \$104,000,000. Present expenditures in this line are confined almost entirely to the proceeds of Government loans to the roads. Operating revenues amounted to \$6,386,000,000 in 1929 and in 1933 they were \$3,095,000,000, while net operating income fell from \$1,321,000,000 to \$474,000,000 in the same period. In 1932 all roads combined earned 1.5 per cent on their property investment as fixed by the I.C.C. In 1933 the rate was 2.18 per cent as a result of the evanescent Summer boom. In the first seven months of this year it was less than 2 per cent and the rate is falling.

As against this record of decreased business and revenue the railways now face an increase of approximately \$290,000,000 in operating costs. Of this sum, \$156,000,000 is due to the gradual restoration of the 10 per cent reduction in wages effected a year ago, the restoration commencing in July. The rest, \$134,000,000, is due to the increased cost of materials and supplies. If the railway pension act is held constitutional it will cost the roads, according to their calculation, about \$60,000,000 additional during the first year of operation and more each succeeding year.

To off-set this increase in expenses the railways ask authority for increased rates which are calculated to produce \$170,000,000 of additional revenue. The chief items in the increase would be \$18,790,377 from agricultural produce, \$12,224,449 from animal products and \$69,996,217 from mine prod-

must absorb the increase and reduce their own incomes below a profitable level or pass it on to consumers in increased prices, which will reduce consumption, production and employment.

In the meantime the railways are practically helpless. A majority of them are not paying their way, many of them are not meeting immediate expenses. Few of them can borrow money except from the Government and of course loans to meet current expenses merely postpone the fundamental issue. The Government, through the R.F.C. and the P.W.A., has been liberal in its loan policy. Up to October 1 it had advanced about \$540,000,000 and promised more. Less than \$75,000,000 had been repaid. Private lending has been little more than nominal, though the R.F.C., by underwriting, promises to give material aid. The reasons for the hesitancy of private capital to extend loans for betterments are evident.

No one, of course, can tell what Congress will do about it. Last year the Administration asked and was accorded the appointment of a Coördinator to eliminate waste in railway management and operation, but the Coördinator's hands were immediately tied by a provision in the law that none of the economies he was to order should involve a reduction in employment—and a reduction in employment by the elimination of unnecessary services, a break up

of rigid crew and employment rules was the very heart of the matter, 43 per cent of the entire operating income of Class I roads going to employees.

The Government itself seems to be as uncertain as any one about what can be done to relieve the situation. Yet it is reasonably certain that action taken will be along either one or both of two lines. One is the financial reorganization of the roads so as to reduce financial overhead and fixed charges to a level corresponding to present realities; the other is comprehensive governmental control both of the railways and of all competing transport agencies. Neither of these plans is new; both in fact have been partially undertaken by the Government. Progress along either or both lines has been limited through the action of the interests concerned.

Financial reorganization has been retarded by the unwillingness of railway security holders to accept the writing down of their nominal holdings, necessary in most cases to effect it. Under the amendments to the bankruptcy law passed by the last Congress a prompt and equitable method of reorganization was provided, but this method required the approval of two-thirds of the holders of the securities of the roads involved as well as that of the I.C.C. and a Federal court. These security holders have hesitated to accept the necessary write-down of their holdings in the hope that

better times and possibly favorable legislation might put them in a better position. The result is that little has been accomplished in the way of reorganization.

It is now proposed that the element of compulsion be brought into the situation so that where a road is manifestly unable to meet its obligations the Federal authorities can compel it to reorganize its capital structure and bring about conditions in which the road can give better service, maintain its property in proper condition and otherwise place itself in a position where it can be supported by its earnings. In the opinion of many railway authorities the only alternative to this is Government ownership and operation of the roads—a state of things which the Coördinator of Transportation and other Federal authorities frankly envisage as the ultimate fate of the railway system.

Moves in the general direction of a coördination of transportation have been going on for years. They culminated in the President's plan for a comprehensive reorganization, of which the appointment of a Coördinator of Transportation over a year ago was the first step. Legislation to bring trucks and busses under the control of the I.C.C. was introduced in Congress at the last session, but it failed to get very far.

In the meanwhile there is little doubt that the position of the railways can be measurably improved by reorganization and retrenchment. Abandonment of the short haul, less than carload lot business is a necessary economy in many cases. Mergers and the elimination of duplicate services are also in the interest of economy and efficiency. Many other economies are practicable. The Coördinator has been busy investigating. He has them on his list.

GEORGE E. ANDERSON

Progress in many lines has outmoded the railways as they have long existed. New means of transport enter into the matter, but there is no sound reason why the new and the old may not be combined into a service far better than the country has ever known. Nor is there any reason why this new, comprehensive and improved public service should not be of financial benefit to the carriers



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Court Decisions

A DIGEST BY THE LEGAL DEPARTMENT

American Bankers Association

THE United States Supreme Court on October 8 formally decided to review the decision of the New York Court of Appeals in *Norman v. Baltimore & Ohio R. Co.*, 265 N. Y. 37, 191 N. E. 726. The New York court held constitutional the Gold Clause Resolution of Congress providing that an obligation specified to be payable in gold coin can be discharged by payment in currency, dollar for dollar.

FIDUCIARY: DUTY OF CARE

THE test of care by a fiduciary is not merely such care "as a man of ordinary prudence would exercise in dealing with *his own* property" but "he must take no risks which would not be taken by an ordinarily prudent man who is trustee of *another person's* property". The Delaware Court of Chancery held an individual trustee liable for shrinkage on unsecured corporate bonds given a "fourth rating by standard investment appraisers", and on second mortgage corporate bonds given a sixth rating. A mere covenant not to place any mortgage lien upon the properties of the issuing corporation would not be equivalent to a first mortgage and does not make the bonds acceptable. Such a covenant would not preclude the issuing corporation from incurring unsecured obligations without limitation. On the other hand, unsecured bonds of the most favorable rating were held proper investments.

The mere failure of a beneficiary to object after knowledge of improper investments will not protect the trustee. "Before exonerating consent can be made out, it must appear that the cestui que trust knew all the facts, was apprised of his legal rights, was under no disability and acted freely, deliberately and advisedly with the intention of confirming the transaction which he knew, or might or ought, with reason-

able or proper diligence, to have known to be impeachable." In *re Cook's Trust Estate*, 171 Atl. 730.

CORPORATE TRUSTEE LIABILITY

THE delivery of non-legal investments by a living creator of a trust to a corporate trustee authorizes it, acting prudently, to retain such investments, for "If the settlor had wanted a trust consisting of legal investments, he would have delivered such investment to the trustee."

The liability of a corporate fiduciary for retaining investments is not to be determined by hindsight. After depreciation, it is evidence in favor of the fiduciary that the particular bonds were held in large numbers by the largest and best insurance companies, and were also held by numerous banks, trust companies, colleges, executors, committees and testamentary trustees.

A corporate trustee may not employ an outside accountant to prepare an account at the expense of the estate where there was "nothing difficult or extraordinary" about the account, but where the account "concerned a few transactions which the large bookkeeping and accounting department of a trust company could properly and without difficulty handle". Supreme Court Justice Shientag in *Chemical Bank and Trust Co. v. Reynaud*, 270 N. Y. Supp. 301.

REORGANIZATION OF NATIONAL BANKS

A NON-CONSENTING depositor of a national bank is bound by a reorganization under Section 207 of the Federal Bank Conservation Act. A New York court has held constitutional this section providing for reorganization upon the consent of 75 per cent in amount of depositors and other creditors, when their rights are affected, and the consent of two-thirds of the stockholders, when

their rights are affected. The section requires, in addition, the approval of the Comptroller of the Currency. *Miller v. National Chautauqua County Bank of Jamestown*, 240 App. Div. 169, 270 N. Y. Supp. 522.

EXCESS LOANS; CRIMINAL LIABILITY

AN excess loan by a national bank cannot justify a criminal prosecution for a conspiracy to commit an "offense against the United States". The sole liability of the directors for excess loans is civil rather than criminal. *United States v. Brown*, 6 F. Supp. 331.

REPLEDGE OF COLLATERAL

A CONVICTION of a bank officer for repledging collateral for a bank obligation in excess of the original pledgor's indebtedness to the bank was affirmed by the Pennsylvania Supreme Court in *Commonwealth v. Heckman*, 172 Atl. 28.

FALSE FINANCIAL STATEMENT

A BORROWER furnishing a banking institution a false financial statement has been denied a discharge in bankruptcy. In *re Holzman*, 69 Fed. (2d) 828. A penalty is incurred in this respect in addition to criminal liability under state statutes and to Federal criminal liability, if the false statement is mailed.

MORTGAGEE'S POSSESSION UPON DEFAULT

"ANY provision of a mortgage contract which attempts to place the mortgagee in possession of the premises upon the future default of payment or upon the failure to meet any of the conditions of the contract is contrary to the public policy of this state." The mortgagor cannot be ousted from possession without proper legal proceedings. *Rives v. Mincks Hotel Co.*, 30 P. (2d) 911.

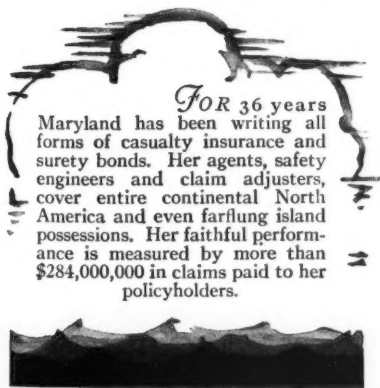


*Come Wind, Come Storm... Naught Could Stop Her
in Her Course*

"COME wind, come storm, naught could stop our Baltimore Clipper in her course," wrote good Captain Gilmor from the Rio in 1837. "I found her timbered to any gale."

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CASUALTY**
COMPANY *Baltimore*

SILLIMAN EVANS, *President* • F. HIGHLANDS BURNS, *Chairman of the Board*

Minutes

(CONTINUED FROM PAGE 9)

Trees

By decision of Comptroller General McCarl, Congress will get an opportunity to pass upon the tree belt-drought-prevention proposition. The Government will be allowed to spend only \$1,000,000 before committing the country irrevocably to the project.

*

Savings Interest

The October refunding of $4\frac{1}{4}$ per cent interest Liberty bonds will save the Government \$14,500,000 a year. Most of the \$596,000,000 of four-year $2\frac{1}{2}$ per cent notes were taken up by banks which thus surrender over \$8,300,000 in interest. This may not be altogether a matter of patriotism but it certainly cannot be taken as an indication of any reluctance on the part of the banks to cooperate with the Government.

*

Unions

The American Federation of Labor at its San Francisco convention finally decided upon the vertical as contrasted with the horizontal organization of Labor as the best method of enforcing its demands. A union of all workers in an entire industry can be a very powerful weapon for good or evil. What concerns the public are the objects of labor and the discipline, self-restraint and reasonableness with which it moves to attain them.

*

Steel

N.R.A. officials contend that the code for the steel industry is working in a most satisfactory way. Wage rates have been maintained in spite of the ups and downs of production. It seems a little peculiar, however, that either labor or capital can be satisfied with a condition which holds the industry to around one-fifth of its operating capacity.

*

Municipals

The financial condition of American cities has distinctly improved in the past few months—not that it is now so

very good but that formerly it was so very bad. More economy and less politics in administration and a rigid adherence to the balanced budget principle have worked wonders and may do the same with state and national governments. Meanwhile, "municipals" can lift their heads and look the world in the face.

*

Planned Economy

Perhaps the march of events, as well as the Government, is causing abandonment of the "planned economy" program, if ever the Government had one. There is no room for planned economy or any such regimentation under normal conditions in this country. And normal conditions are well on their way.

*

Trade or Debts

Pressure is being exerted upon the Federal authorities in connection with the negotiations for reciprocal tariff treaties to adapt possible trade agree-

ments to the collection of debts due American holders of foreign bonds. First impressions suggest that the plan is a good one, but on second thought it will be found that in most cases such an arrangement will merely restrict foreign purchases of American goods without effecting much in the way of debt collection. If international trade can be stimulated by reciprocity treaties debt collection will follow in due course. Truth is, the results of such trade arrangements on either count are not likely to be very impressive.

*

Sales

Wholesale trade in 1933 amounted to 25.7 billions of dollars as compared with 49.1 billions in 1929. Retail trade amounted to 30.5 billions as compared with 69 billions in the same years. Loans and investment of all banks in the United States on December 30 last, amounted to 40.5 billions as compared with 58.5 billions at the end of 1929. The connection of these figures lies in the fact that banking and trade were subjected to the same depressing influences under which, however, banking seems to have done as well as commerce.

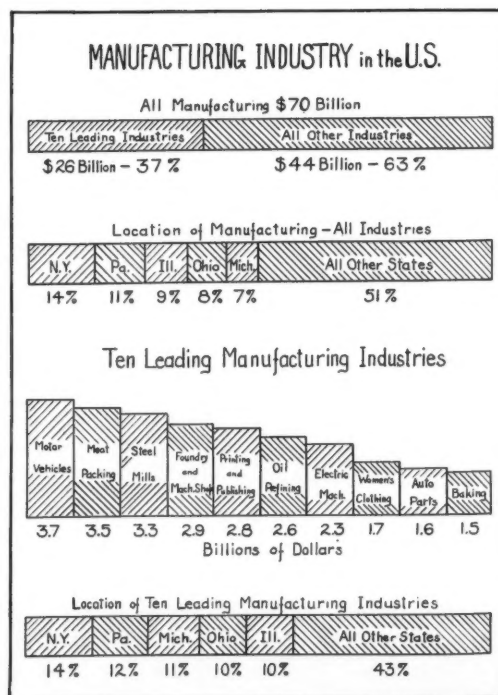


CHART BY J. P. HICKMAN JR.
BANKING

IRVING

Trust Company

NEW YORK

CHARTER MEMBER NEW YORK CLEARING HOUSE ASSOCIATION, OCTOBER 4, 1853

Statement of Condition as of September 30, 1934

ASSETS

| | |
|--|-------------------------|
| Cash on Hand, and Due from Federal Reserve Bank and Other Banks | \$138,543,931.19 |
| United States Government Securities (including those pledged to secure deposits of public monies of \$40,482,082.25) | 175,287,689.40 |
| Securities Guaranteed by U. S. Government | 15,059,120.20 |
| Call Loans and Acceptances of Other Banks | 28,211,210.62 |
| Time Loans to Brokers | 26,920,000.00 |
| Other Loans and Discounts | 111,697,109.69 |
| Stock in Federal Reserve Bank | 3,450,000.00 |
| State, County and Municipal Securities | 15,434,377.43 |
| Other Securities | 12,832,365.88 |
| First Mortgages on Real Estate. | 11,550,926.54 |
| Bank Buildings | 25,538,569.70 |
| Other Real Estate | 425,269.13 |
| Liability of Customers for Acceptances | 7,445,692.43 |
| Accrued Income, Accounts Receivable, etc. | 3,657,856.88 |
| | <u>\$576,054,119.09</u> |

LIABILITIES

| | |
|--|-------------------------|
| Deposits | \$441,126,276.62 |
| Official Checks | 4,566,213.04 |
| | \$445,692,489.66 |
| Acceptances | 8,060,502.07 |
| Reserve for Taxes, Interest, Unearned Income, etc. | 915,412.84 |
| Dividend payable October 1, 1934 | 1,250,000.00 |
| Other Liabilities | 3,877,226.96 |
| Capital Stock | \$50,000,000.00 |
| Surplus Fund | 55,000,000.00 |
| Undivided Profits | 2,769,438.72 |
| | 107,769,438.72 |
| Reserve for Contingencies | 8,489,048.84 |
| | <u>\$576,054,119.09</u> |

A Federal Reserve System

(CONTINUED FROM PAGE 17)

portant rôle in choosing the members of the Board. Politicians assume that the discount rate policies of the System may be controlled in the interests of party leadership. . . . Interference by politicians in the affairs of the Reserve Bank is of the gravest danger and will prevent their administration and control along the most scientific lines. Those interested in sound monetary and banking policies in America should rally to protect the System from the attacks of the self-seeking politician and should endeavor to place its operation in the hands of disinterested experts.

—BENJAMIN HAGGOTT BECKHART, 1924.

A firmly established and rational banking tradition is in the long run the greatest safeguard against continuous or widespread practices leading to unhealthy credit expansion.

Some progress in the development of such a tradition has been made by the Federal Reserve System during the past 3 years of relatively normal business and credit conditions. In fostering the growth of the American banking tradition the Federal Reserve System builds a strong public support for its policies and increases its ability to be of service to the country.

—E. A. GOLDENWEISER, 1925.

. . . Any announcement by the Federal Reserve Board of a purpose to control prices by means of discount rates would, in my opinion, lead to the destruction of the Federal Reserve System. —W. P. G. HARDING, 1925.

The regulations of the Federal Reserve Board, although certainly possessing no mandatory quality outside of the membership of the Federal Reserve System (which has never contained more than about one-third of all the incorporated banks in the country), have nevertheless acquired a very extensive and powerful influence over banking methods and conditions in the country at large.

—H. PARKER WILLIS, WILLIAM H. STEINER, 1926.

While the Federal Reserve Board may never, if it should ever, become so detached and so completely independent of legislative and executive influence as to assume the status of the "Supreme Court of Banking", as many eminent bankers have desired, it is certainly to be devoutly wished that it may permanently hold such a high place of appreciation in the confidence and esteem of the country as to make it futile, if not positively dangerous, for political vandals to practice their arts against it. An intelligent and fearless performance of its functions involves as much of sanctity and of consequence to the American people as a like discharge of duty by the Supreme Court of the United States.

—CARTER GLASS, 1927.

It hardly seems reasonable to expect a central banking system, which ordinarily comprehends only the commercial banking structure of a country . . . to be able to stabilize the price level through credit control when its power of control is so clearly limited. The Federal Reserve System has direct control only over those commercial banks and trust companies which are members of the System. —WALTER E. SPAHR, 1931.

A committee formed by governors of the Reserve banks is making a study of proposed banking legislation. Its members include governors George L. Harrison, New York (left, below); Eugene R. Black, Atlanta (right, below); Roy A. Young, Boston; and G. J. Schaller, Chicago; also J. J. Thomas, acting governor of the Reserve Board, and Dr. E. A. Goldenweiser, the board's chief statistician



U. S. U.

U. S. U.

BANKING

The New York Trust Company

100 BROADWAY

40th St. & Madison Ave.

Fifth Ave. & 57th St.

CONDENSED STATEMENT OF CONDITION

At the close of business, September 30, 1934

| RESOURCES | LIABILITIES |
|--|--|
| Cash on Hand, in Federal Reserve Bank and Due from Banks and Bankers \$67,279,709.99 | Capital . \$12,500,000.00 |
| United States Government Securities 83,591,454.70 | Surplus . 20,000,000.00 |
| Reconstruction Finance Corporation Notes . . 2,500,000.00 | Undivided Profits . 1,714,545.02 <u>\$34,214,545.02</u> |
| Other Bonds and Securities 40,638,525.95 | Reserves: |
| Loans and Bills Purchased. 100,155,482.06 | For Contingencies . . 9,112,000.00 |
| Accrued Interest and Other Resources 2,787,270.69 | For Taxes, Interest, etc.. 1,895,426.92 |
| Mortgages Owned . . . 3,315,856.20 | Deposits . 250,441,941.74 |
| Equities in Real Estate . 551,373.85 | Outstanding Checks . 6,009,005.00 <u>256,450,946.74</u> |
| Banking Houses—Equity and Leasehold 2,266,507.81 | Dividend Payable September 29, 1934 625,000.00 |
| Customers' Liability for Acceptances and Letters of Credit 3,819,701.63 | Acceptances and Letters of Credit 4,607,964.20 |
| Liability of Others on Acceptances, etc., Sold with Our Endorsement . . . 66,285.44 | Acceptances, etc., Sold with Our Endorsement . . 66,285.44 |
| <u>\$306,972,168.32</u> | <u>\$306,972,168.32</u> |

Member of the Federal Reserve System and of the New York Clearing House Association

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New York

ARTHUR M. ANDERSON
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LOUIS STEWART, SR.
New York

VANDERBILT WEBB
Milbank, Tweed, Hope & Webb

Canada's Central Bank

(CONTINUED FROM PAGE 21)

Although the act requires that an amount of gold equal to at least 25 per cent of the bank's note and deposit liabilities be maintained in Canada, yet, in recognition of Canada's need of working balances in foreign centres these funds so carried in the form above mentioned may legally constitute reserves.

While the minimum gold reserve is somewhat below the requirements imposed on the Federal Reserve banks, calling as they do for 40 per cent and 35 per cent respectively against notes and deposits, the above minimum percentage, it may be noted, is in accordance with the resolutions passed at the London Conference last summer.

As a part of the mechanism of control the chartered banks, in turn, are required to keep a reserve of 5 per cent against their deposit liabilities in Canada. This reserve must be in the form of deposits with the bank and in Bank of Canada notes in their own tills. In contrast with the member bank requirement under the Federal Reserve System, no distinction is made here between time and demand deposits nor are there varying requirements according to location of the banks in designated areas.

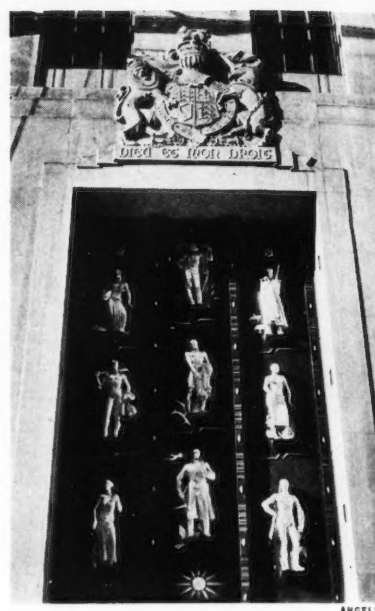
In comparing the outlines of the Canadian structure with the Federal Reserve System it is apparent that some rather striking differences—formally, at least—exist. The differences, to a large degree, are the product of dissimilar circumstances and conditions rather than being the expression of clearly opposed principles.

THIS broad question of ownership, control, appointment of officers and directors, and the general relation of the central bank to the government has been the subject of prolonged and careful study and also, incidentally, of some controversy in Parliament. The problem in this connection, of course, is a very delicate one. It is that of creating an institution which shall be devoted to the public interest, but which shall not be subject to the exigencies of politics in the narrower sense of that word. The services of the bank should obviously be at the disposal of the government, particularly in times of severe crisis and emergency. Clearly, however, the bank should retain a definite autonomy and should not be subject to interference with details of its administration nor be regarded as merely a wheel in the machinery of political government.—The Author.

For example, while private ownership is a feature common to both, yet, in regard to the banking interests, where one system prohibits, the other compels. That is, in Canada the ordinary commercial banks may not own shares in the central bank, neither are bank officials and employees eligible for the office of director, while in the case of the Federal Reserve System the 12 Reserve banks are owned outright by the member banks, all national banks being compelled to participate, others being admitted on their own initiative. This difference is perhaps not unnatural.

It must be remembered that in the case of the United States the fear of a "money trust" was to a considerable extent allayed by the acceptance of the Federal principle with a Reserve bank in each district, and that furthermore, there was, at the time the System was being introduced, a high degree of emphasis on the need of banks of rediscount—reserve banks—as a means of insuring against periodic breakdowns. To a far lesser degree than now was the emphasis on broad social control. In the case of Canada where, with branch banking, the need of a banker's bank as such, has not been a major problem it is not difficult to appreciate the nature of the present regulations surrounding the ownership of the Bank of Canada.

In regard to the right of note issue the two systems under review again do not conform. This function is, of course, at present shared by the three authorities in the United States—the Government, the national banks and the Fed-



The door of the British Empire Building in Rockefeller Center, New York City. The figures superimposed on the door represent Empire industries

eral Reserve banks, while, as stated above, the sole right to issue notes in Canada is eventually to rest with the central bank. However, in both systems we find recognition of the vital principle that the variable element in the currency system should be coördinated with the credit structure. While in the matter of detail innumerable differences between the two systems are apparent—the internal mechanisms must of necessity vary considerably—yet essentially they stand alike, designed by their founders to shape and direct, as far as may lie within their field, the financial mechanism of their respective countries in the interest of stability and social well-being.

Needless to say, this very brief exposition treats in a very inadequate fashion a range of questions which are scarcely more than touched in passing. It does attempt, however, to present a partial picture and to suggest the importance of the place which it is expected the new bank will hold in Canada. It should be clear beyond question that Canada is not cutting away from a system which undoubtedly has served her well. Nor, as pointed out by the Macmillan Commission, is there basis for any fear that the introduction of a central bank will disturb the existing banking system. On the contrary, it is designed to strengthen and supplement the existing financial mechanism and to fill a vital need in the economic life of the country.



WHAT DOES IT COST?

It costs more to make a large number of small loans than to make a small number of large loans. Every banker realizes that.

It costs more to handle a considerable number of monthly or weekly loan deposits than it does to receive and credit two or three reductions of a note, and a final settlement. Yet planned amortization at regular intervals is the soundest way we know of to safeguard small loans; soundest for all concerned. Morris Plan rates vary, naturally, in

different states and cities. But we believe you will find, if there is a Morris Plan institution in your city, that its rates are the lowest available locally for amortized loans. In any case, Morris Plan does not require the applicant to have been a depositor. Its charges are in line with local conditions and in proportion to the service rendered.

Compare the cost. Then, we are confident, you will refer undesired (but not undesirable) borrowing customers to your local Morris Plan institution.



MORRIS PLAN BANKERS ASSOCIATION

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*This series of advertisements
is sponsored by Morris Plan
institutions in 89 cities.*

Detailed Comparative Statement

By J. W. MILLER

THE depression has taught those charged with the responsibility of their banks' success that the extent to which they may hope to succeed depends a great deal on how successful they are in managing investment portfolios. This in itself is not sufficient, but the successful management of the investment account will go a long way in assisting those responsible for the success or failure of an institution.

The first step for the management to take is to decide how large an investment account they desire to carry. Some of the factors having a bearing on the size of a bank's investment portfolio and its composition are the general make-up of its deposit liability, its assets other than investments, the prospective local demand for loans, and general and local economic conditions. They should determine what percentage of their investment portfolio is to be in Governments, municipalities, rails, public utilities, industrials, etc., and what proportion is to be in short, medium and long term maturities.

They should decide whether they are going to adopt a very conservative policy and buy only securities with very high ratings, or, if they are going to be more liberal, just how far in this direction they intend to go. Of course, their decisions in the above matters would always be subject to change. After an agreement is reached, in order to adhere to the policies adopted, it is very essential that the management receive periodical statements showing a complete analysis of the bank's investment account. The comparative statement presented in this article was designed primarily for this purpose.

This statement shows as of the last day of each month the amount of dollars invested in each classification and the ratios of the different groups to the whole. It discloses the trends of the ratings and maturities in percent-

ages both in the different classifications and in the total.

To bring out more clearly the facts which such a statement reveals, an analysis of the figures comprising the one presented follows.

A glance at the "total securities" classification is sufficient to tell you that this bank's policy is toward the acquisition of less conservative investments. The maturities show a shift

from the short to the medium and long term. Generally speaking then, we find this bank is gradually adopting a more liberal policy in buying securities. Now that we know the story of the investment account as a whole, we will make a more detailed analysis of the figures in order to determine how each classification has been affected. We will take each group in the order that it appears on the statement.

ANALYSIS

U. S. GOVERNMENTS

Trend of Ratio to Total Securities: Downward.

Trend of Ratings:

No change.

Trend of Maturities:

From short to long term.

FEDERAL INSTRUMENTALITIES

Trend of Ratio to Total Securities: Downward.

Trend of Ratings:

From "AA" to "AAA".
Last figures show all "AAA".

Trend of Maturities:

From short to long term.

MUNICIPALS

Trend of Ratio to Total Securities: Slightly upward.

Trend of Ratings:

From "AAA" to "AA" and "A".

Trend of Maturities:

From short to medium and long term.

RAILROADS

Trend of Ratio to Total Securities: Upward.

Trend of Ratings:

From "AAA" to "AA" and "A".

Trend of Maturities:

From medium to short and long term.

PUBLIC UTILITIES

Trend of Ratio to Total Securities: Upward.

Trend of Ratings:

From "AAA" to "AA".

Trend of Maturities:

Not much change.

INDUSTRIALS

Trend of Ratio to Total Securities: Not much change.

Trend of Ratings:

From "AAA" to "AA" and "A".

Trend of Maturities:

From short and medium to long term during first few months of year. No change in last four months.

of the Investment Account

CLASSIFICATION

U. S. Governments (000)
 % of Total Securities
 Rating AAA (%)
 Short Term (%)
 Medium Term (%)
 Long Term (%)

Federal Instrumentalities(000)
 % of Total Securities
 Rating AAA (%)
 Rating AA (%)
 Rating A (%)
 Short Term (%)
 Medium Term (%)
 Long Term (%)

Municipals (000)
 % of Total Securities
 Rating AAA (%)
 Rating AA (%)
 Rating A (%)
 Rating BAA (%)
 Short Term (%)
 Medium Term (%)
 Long Term (%)

Railroads (000)
 % of Total Securities
 Rating AAA (%)
 Rating AA (%)
 Rating A (%)
 Rating BAA (%)
 Short Term (%)
 Medium Term (%)
 Long Term (%)

Public Utilities (000)
 % of Total Securities
 Rating AAA (%)
 Rating AA (%)
 Rating A (%)
 Rating BAA (%)
 Short Term (%)
 Medium Term (%)
 Long Term (%)

Industrials (000)
 % of Total Securities
 Rating AAA (%)
 Rating AA (%)
 Rating A (%)
 Rating BAA (%)
 Short Term (%)
 Medium Term (%)
 Long Term (%)

Total Securities (000)
 Rating AAA (%)
 Rating AA (%)
 Rating A (%)
 Rating BAA (%)
 Short Term (%)
 Medium Term (%)
 Long Term (%)

| | Jan. 31 | Feb. 28 | March 31 | Apr. 30 | May 31 | June 30 | July 31 | Aug. 31 | Sept. 30 | Oct. 31 | Nov. 30 | Dec. 31 |
|--------------------------------|------------|------------|-------------|------------|-----------|------------|------------|------------|-------------|------------|------------|------------|
| U. S. Governments (000) | 1818 | 1988 | 2018 | 2199 | 2323 | 2323 | 2527 | 2563 | 2570 | | | |
| % of Total Securities | 67 | 63 | 55 | 55 | 51 | 50 | 52 | 50 | 48 | | | |
| Rating AAA (%) | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | | | |
| Short Term (%) | 75 | 73 | 75 | 72 | 68 | 52 | 49 | 48 | 46 | | | |
| Medium Term (%) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | |
| Long Term (%) | 25 | 27 | 25 | 28 | 32 | 48 | 51 | 52 | 54 | | | |
| Federal Instrumentalities(000) | 216 | 252 | 282 | 312 | 312 | 312 | 276 | 204 | 204 | | | |
| % of Total Securities | 8 | 8 | 8 | 8 | 7 | 7 | 6 | 5 | 4 | | | |
| Rating AAA (%) | 63 | 77 | 100 | 100 | 100 | 100 | 96 | 100 | 100 | | | |
| Rating AA (%) | 37 | 23 | 0 | 0 | 0 | 0 | 4 | 0 | 0 | | | |
| Rating A (%) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | |
| Short Term (%) | 57 | 73 | 65 | 59 | 59 | 59 | 53 | 35 | 34 | | | |
| Medium Term (%) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | |
| Long Term (%) | 43 | 27 | 35 | 41 | 41 | 41 | 47 | 65 | 66 | | | |
| Municipals (000) | 506 | 607 | 805 | 865 | 984 | 1022 | 1086 | 1070 | 1153 | | | |
| % of Total Securities | 19 | 19 | 22 | 21 | 22 | 22 | 21 | 21 | 22 | | | |
| Rating AAA (%) | 54 | 63 | 59 | 16 | 15 | 17 | 50 | 18 | 17 | | | |
| Rating AA (%) | 46 | 32 | 41 | 53 | 64 | 59 | 50 | 59 | 59 | | | |
| Rating A (%) | 0 | 5 | 0 | 31 | 21 | 24 | 10 | 23 | 24 | | | |
| Rating BAA (%) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | |
| Short Term (%) | 93 | 90 | 92 | 85 | 80 | 78 | 71 | 77 | 75 | | | |
| Medium Term (%) | 7 | 6 | 8 | 15 | 19 | 20 | 24 | 18 | 19 | | | |
| Long Term (%) | 0 | 4 | 0 | 0 | 1 | 2 | 5 | 5 | 6 | | | |
| Railroads (000) | 136 | 147 | 312 | 378 | 563 | 641 | 612 | 746 | 784 | | | |
| % of Total Securities | 5 | 5 | 8 | 9 | 12 | 14 | 13 | 15 | 15 | | | |
| Rating AAA (%) | 50 | 45 | 51 | 39 | 35 | 26 | 18 | 25 | 22 | | | |
| Rating AA (%) | 50 | 43 | 29 | 56 | 54 | 65 | 48 | 55 | 56 | | | |
| Rating A (%) | 0 | 13 | 20 | 5 | 11 | 9 | 18 | 20 | 22 | | | |
| Rating BAA (%) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | |
| Short Term (%) | 5 | 12 | 52 | 51 | 58 | 39 | 33 | 30 | 31 | | | |
| Medium Term (%) | 72 | 63 | 23 | 20 | 19 | 19 | 11 | 19 | 9 | | | |
| Long Term (%) | 23 | 25 | 23 | 29 | 33 | 42 | 56 | 60 | 60 | | | |
| Public Utilities (000) | 0 | 102 | 153 | 192 | 223 | 222 | 236 | 345 | 452 | | | |
| % of Total Securities | 0 | 3 | 4 | 5 | 5 | 4 | 5 | 7 | 8 | | | |
| Rating AAA (%) | 0 | 48 | 54 | 43 | 36 | 36 | 43 | 50 | 38 | | | |
| Rating AA (%) | 0 | 40 | 38 | 42 | 50 | 50 | 44 | 59 | 50 | | | |
| Rating A (%) | 0 | 12 | 8 | 17 | 14 | 14 | 13 | 11 | 12 | | | |
| Rating BAA (%) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | |
| Short Term (%) | 0 | 46 | 67 | 55 | 47 | 47 | 53 | 58 | 49 | | | |
| Medium Term (%) | 0 | 18 | 0 | 0 | 14 | 14 | 16 | 21 | 19 | | | |
| Long Term (%) | 0 | 36 | 33 | 45 | 39 | 39 | 43 | 31 | 32 | | | |
| Industrials (000) | 30 | 54 | 121 | 94 | 142 | 130 | 130 | 150 | 175 | | | |
| % of Total Securities | 1 | 2 | 3 | 2 | 3 | 3 | 3 | 3 | 3 | | | |
| Rating AAA (%) | 100 | 34 | 15 | 13 | 9 | 9 | 14 | 9 | 7 | | | |
| Rating AA (%) | 0 | 54 | 33 | 68 | 66 | 63 | 58 | 63 | 64 | | | |
| Rating A (%) | 0 | 12 | 52 | 19 | 25 | 28 | 28 | 28 | 29 | | | |
| Rating BAA (%) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | |
| Short Term (%) | 50 | 33 | 53 | 39 | 17 | 27 | 27 | 27 | 27 | | | |
| Medium Term (%) | 50 | 12 | 22 | 30 | 31 | 27 | 27 | 27 | 27 | | | |
| Long Term (%) | 0 | 55 | 25 | 31 | 52 | 46 | 46 | 46 | 46 | | | |
| Total Securities (000) | 2706 | 3144 | 3691 | 4040 | 4547 | 4652 | 4827 | 5076 | 5338 | | | |
| Rating AAA (%) | 85 | 86 | 82 | 71 | 68 | 66 | 71 | 65 | 62 | | | |
| Rating AA (%) | 15 | 12 | 14 | 20 | 25 | 26 | 23 | 26 | 27 | | | |
| Rating A (%) | 0 | 2 | 4 | 9 | 7 | 8 | 8 | 9 | 11 | | | |
| Rating BAA (%) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | |
| Short Term (%) | 73 | 72 | 75 | 70 | 65 | 55 | 53 | 50 | 49 | | | |
| Medium Term (%) | 6 | 5 | 5 | 6 | 8 | 9 | 8 | 8 | 8 | | | |
| Long Term (%) | 21 | 23 | 20 | 24 | 27 | 36 | 41 | 42 | 43 | | | |

Guaranty Trust Company of New York

MAIN OFFICE
140 Broadway

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MADISON AVE. OFFICE
Madison Ave. at 60th St.

LONDON PARIS BRUSSELS LIVERPOOL HAVRE ANTWERP

Condensed Statement, September 30, 1934

RESOURCES

| | |
|---|---------------------------|
| Cash on Hand, in Federal Reserve Bank, and due from Banks and Bankers | \$ 222,427,916.51 |
| Bullion in Foreign Branches | 686,293.00 |
| U. S. Government Securities | 470,180,329.51 |
| Notes of Reconstruction Finance Corporation | 20,000,000.00 |
| Public Securities. | 73,034,836.97 |
| Stock of the Federal Reserve Bank | 7,800,000.00 |
| Other Securities | 21,554,260.64 |
| Loans and Bills Purchased | 611,462,636.10 |
| Credits Granted on Acceptances | 36,207,929.09 |
| Bank Buildings | 13,883,422.39 |
| Other Real Estate | 97,835.74 |
| Real Estate Bonds and Mortgages | 2,610,283.32 |
| Accrued Interest and Accounts Receivable | 17,428,004.25 |
| | <u>\$1,497,373,747.52</u> |

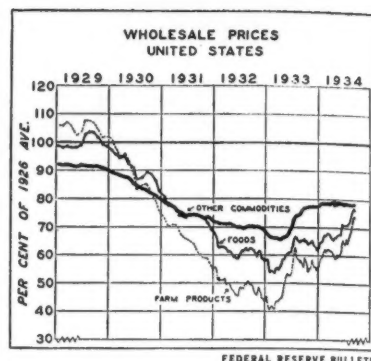
LIABILITIES

| | |
|---|---------------------------|
| Capital | \$ 90,000,000.00 |
| Surplus Fund | 170,000,000.00 |
| Undivided Profits | 7,167,463.99 |
| | <u>\$ 267,167,463.99</u> |
| Dividend Payable October 1, 1934 | 4,500,000.00 |
| Accrued Interest, Miscellaneous Accounts Payable, Reserve for Taxes, etc. | 7,891,491.44 |
| Items in Transit with Foreign Branches | 242,536.49 |
| Acceptances | \$89,978,330.35 |
| Less: Own Acceptances | |
| Held for Investment | 53,770,401.26 |
| | <u>36,207,929.09</u> |
| Liability as Endorser on Acceptances and Foreign Bills. | 269,145.00 |
| Deposits | \$1,166,177,094.42 |
| Outstanding Checks | 14,918,087.09 |
| | <u>1,181,095,181.51</u> |
| | <u>\$1,497,373,747.52</u> |

WILLIAM C. POTTER, Chairman W. PALEN CONWAY, President
EUGENE W. STETSON, Vice-President

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Who Pays for the A.A.A.

IN A BOOKLET called "Achieving a Balanced Agriculture" the A.A.A. sets out to explain the "why of agricultural adjustment" and the "how of agricultural adjustment." Much of the latter section of the booklet is in explanation of the cost of the program.

It says in part:

"But, from one point of view, the question of who pays the tax is beside the point. Even if it could be shown that the farmer pays part of the tax, that would not in itself mean that the farmer is not gaining great advantage from it. If there were no tax, there could be no benefit payments. If there were no benefit payments, no plan for voluntary control of production would be feasible. If there were no control of production, supplies would be excessive and prices would continue at ruinously low levels."

Without discussion of present commodity stocks or prices, the publication says that "the farmer who thinks he is paying part of the tax should do some figuring. He should figure what price he would be getting if there were no adjustment program. Then he should figure what his total cost of production would be if he were making no reduction in the number of pigs raised, take that figure from his total income and thus get at his net return if he were not operating under the program."

The booklet goes on to reassure farmers that they "should not forget that all the processing tax money ends up in their own pockets. Even in those cases where they pay part of the tax, they get it all back."

H.O.L.C. Appraisals

THE Home Owners' Loan Corporation has many obligations in its work throughout the country, particularly with regard to real estate appraisals. Phillip W. Kniskern, appraisal adviser to the corporation, believes that high professional standards for measuring the value of residential property are being set.

Primarily, Mr. Kniskern pointed out in an address at Trenton, New Jersey, the corporation is obligated to protect the United States Government, and this means that values must be sound. Also, because home owners in distress are entitled to the fullest relief possible, the corporation's appraisers must find a full and fair value for the property. Inasmuch as values determined by the corporation will have a marked influence on the residential real estate market for some time to come it is necessary that the valuations be accurately and scientifically established.

"We realize," said Mr. Kniskern, "that if we appraise to the present distress market prices, none of these purposes will be accomplished. We work to the definition 'the full, fair value of the property as collateral for a long term first mortgage loan'. This definition permits us to recognize factors in the assured future which give us values materially above the present market prices."

Each complaint of under-valuation is checked, although it has been found necessary to eliminate all broad and general statements and to bring the discussion to specific cases. Thus the complainant is requested to make up his own values which are then given careful consideration.

The activities of the corporation have taken "literally hundreds of thousands" of distressed real estate parcels off the market, have saved many others from foreclosure and have encouraged many owners not to throw their properties on the market, Mr. Kniskern asserted. Two individuals make separate and independent appraisals of each property. Their reports are reviewed in the district office of the corporation before a final value is placed on them. Well considered values "carefully prepared in an organized procedure" are now being obtained.

November 1934

You'll find them under **E** in Who's Who

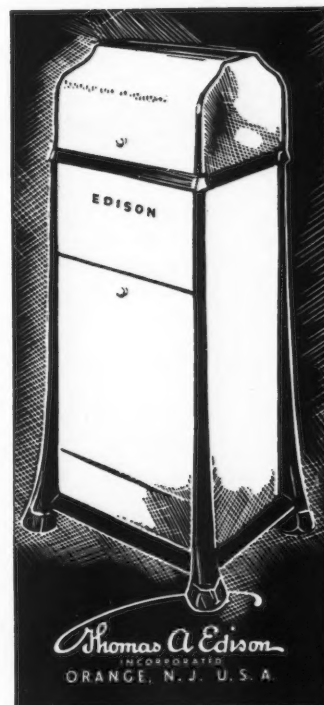


Over a course of years Business has found it profitable to turn to Edison for organized research, for practical inventiveness, for perfection of product. Grateful for the reputation bequeathed by their Founder, The Thomas A. Edison Industries have endeavored to continue deserving his faith and the faith of Industry.

Perfection has always been striven for! And the NEW Pro-technic Ediphone is an example of this sustained effort. It is radically different and improved—in appearance and in performance. *It increases brain-power... making the brains of your organization worth more!*

With the Pro-technic Ediphone your people think once... write once... at once! Because it is an approach to dictating machine perfection, Business has adopted the Voice Writing Service it provides.

● Telephone The Ediphone, Your City, and (without obligation) an Edison man will show you a Pro-technic Ediphone, and tell you how Voice Writing can increase the value of the brain-power in your organization.



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"YOU'RE WRONG THERE!
The Saving we would make
in a MUTUAL Company is
a NET Saving . . ."

THE substantial part of the premium saved by millions of policyholders in *Mutual Fire* insurance companies is actually a net saving. For *Mutual* companies charge no higher basic premium rates than other types of insurance companies.

This oldest form of insurance, with its 182 years record of service, reduces the cost of the insurance by reducing the losses—by selecting good risks and doing everything possible to make them better by operating with careful economy.

Over six million American property owners are protected in *Mutual* companies to the extent of over 37 billion dollars. Thirty-one *Mutual* fire companies now actively operating are over one hundred years old. That's a record hard to match—a compelling record to any property owner interested in reducing an important item of overhead cost with no sacrifice of protection and safety.

**Over \$125,000,000 Saved by These
 Selected Companies**

The leading, legal reserve *Mutual* fire

companies of the country—72 of them—are members of a group known as The Federation of Mutual Fire Insurance Companies. Right through the depression years these strong organizations have paid all just claims promptly—have saved and returned a considerable part of the premium to their policyholders. In the past ten years they have returned over 125 million dollars.

Write today for a list of these companies. Any property owner, large or small, will find in Federation companies all of the traditional *Mutual* soundness and conservatism. Assets total over \$99,000,000.

This Seal Means Safety



This Seal identifies a member company of The Federation of Mutual Fire Insurance Companies and The American Mutual Alliance. It is a symbol of soundness and stability.

MUTUAL FIRE INSURANCE

An American Institution

WRITE FOR THIS BOOKLET

Federation of Mutual Fire Insurance Companies, 230 North Michigan Ave., Chicago, Ill.

Kindly send me a list of Federation Companies and your booklet explaining how the *mutual* plan cuts fire insurance costs.

Name _____

Street _____

City _____

B-NOV.

Real Estate Investments

A PICKUP in real estate investments, especially homes, during the coming year is predicted by Morton Bodfish, executive vice-president of the United States Building and Loan League.

Basing his opinion on a survey of the prospects for improved sentiment toward real estate, Mr. Bodfish believes investments in that form of property should be 10 to 20 per cent greater in volume in the next 12 months than in the past year.

Figures on real estate transfers in representative cities were taken by the League for 1909 and 1923, both of which were rated as "fair" after definitely unfavorable years preceding. Building and loan association figures on home financing were taken for the same periods, and the results, Mr. Bodfish found, lead to the conclusion that "the year which represents the last climb back to normal from a depression is characterized by the markedly increasing popularity of real estate as an investment." Present indications, from several standpoints, are that these years "are most nearly comparable to the one just ahead of us."

Bank Reopenings

THE first nine months of 1934 saw the reopening of 377 national banks with frozen deposits of \$318,316,000. September's contribution to this total was 15 banks with frozen deposits of \$15,005,000.

By the close of business September 29, the number of unlicensed banks in the United States had been reduced to 36, according to the records of J. F. T. O'Connor, Comptroller of the Currency. On March 16, 1933, there were 1,417 unlicensed institutions, but 1,051 with frozen deposits of \$1,758,184,000 have been reopened under old or new charters, or by absorption; 28 have quit business or have withdrawn from the system; and 302 have been placed in the hands of receivers. Eighteen of the banks in the latter classification have plans approved for reorganization, involving \$10,132,000.

BANKING

The National Anti-Crime Movement

THE value of coöperation among the various law-enforcement agencies of government has been admirably demonstrated during the past few months.

Summary justice was executed on John Dillinger at Chicago because Federal, state and local police had worked together in many states for many weeks. Likewise, the Lindbergh kidnaping case called forth the united efforts, at one time or other, of officers in virtually every political sub-division of the country. Rivalry among the various police units no doubt existed as they pursued their independent or overlapping clues, but the dominant motive was attainment of the objective, let rewards and credit fall where they might.

The kidnaping epidemic that followed the Hopewell tragedy offered rather startling evidence that the crime situation in the United States had reached proportions which demanded the establishment of closer working relationships in the American police systems, if not the organization of an "American Scotland Yard". The abduction wave waned for a time when capture of the guilty, soon or late, served notice to the criminal element that the country's police forces could and would coöperate in a forceful manner. More recently, however, the nation was startled by a spectacular hold-up in New York and the kidnaping of a woman in Louisville, so that the value of a national program for a more effective administration of justice, soon to be considered at Washington, was emphasized.

This crime conference at the national capital, announced by Attorney General Cummings, is scheduled for December 10-13. In process of evolution for several months it is obviously considered of great importance by the Government, for the announcement said President Roosevelt would address the opening session.

Mr. Cummings explains that the purpose of the conference is to "evolve a practical program of objectives that will commend itself to the support of the American people."

(CONTINUED ON NEXT PAGE)

Have you thought of insuring your customers against delay, loss, and inconvenience in handling the business which they commit to your care?

Our correspondents enjoy the advantages of every collection facility which long experience, careful management and an extensive list of direct connections can provide.

Our continuously operating transit and collection departments; a credit department always prepared to give reliable and up-to-date credit information, are concrete examples of a service that insures against uncertainty and waste of time and money.

... THE ...

**PHILADELPHIA
NATIONAL BANK**

ORGANIZED 1893

PHILADELPHIA, PA.

Capital and Surplus \$30,000,000



The Marine Midland Trust Company, with its record of sound banking, affords all its depositors the advantages of ample resources, complete facilities, state-wide connections, mature experience and personal attention. *Conservative in conserving its funds, progressive in serving its customers... such is the policy and the record of this bank.*

**The
Marine Midland Trust Company
of New York**

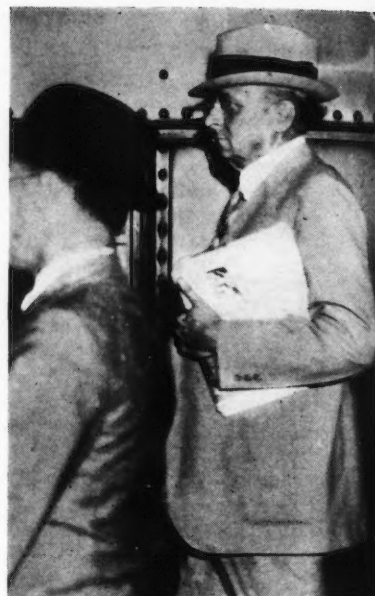
BANKING OFFICES

120 Broadway
143 Liberty Street

110 William Street
128 Chambers Street

12 East 45th Street
17 Battery Place

MEMBER OF THE NEW YORK CLEARING HOUSE ASSOCIATION
MEMBER OF FEDERAL RESERVE SYSTEM • MEMBER OF MARINE MIDLAND GROUP



INTERNATIONAL

Attorney General Cummings

"What is sought," Mr. Cummings points out, "is neither a Federal program, nor a state program alone, but methods of effective coöperation in the sphere of crime prevention and criminal law enforcement by Federal, state and local governments, as well as the active assistance of all agencies, official and otherwise, which can participate in a sustained national movement to deal with the criminal menace."

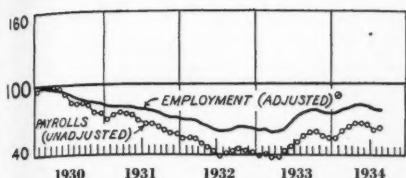
Four general aspects of the crime problem are to be considered:

1. Causes and prevention of crime.
2. Investigation, detection and apprehension.
3. Criminal courts and prosecution.
4. Detention, parole and pardon.

Governors of all the states have been asked to attend, and invitations are also being sent to other state officials as well as to police, patriotic, welfare, legal, medical, sociological, educational, civic and religious organizations. Aid of the press and the motion picture industry will be sought in developing a national sentiment for coöperative effort toward eliminating such criminals as the kidnaper, the bank robber and the racketeer.

As preparations for the conference are made, it is interesting to note the record already achieved in the war against major crime. Since enactment of the so-called Lindbergh kidnaping law in June 1932 the Department of Justice has investigated 31 abductions, actual or plotted, not including the Stoll case. Seventy-four persons were convicted, of whom 16 received life sentences and two the death penalty.

BANKING



Factory employment and payrolls in the United States, from the "Survey of Current Business" of the Department of Commerce

World Unemployment

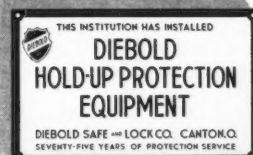
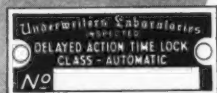
QUARTERLY statistics on world unemployment, compiled by the International Labor Bureau at Geneva, Switzerland, reveal that a decrease occurred during the Summer as compared with 1933, although the rate of decline was smaller than in the Spring of this year.

The Bureau was unable to report totals for the 30 principal industrial nations, but from the data assembled it was estimated that the number of idle in those countries approximated 19,000,000, compared with 22,000,000 in September of last year. The United States reported that its unemployment total for August was 10,772,000, as against 11,793,000 in August 1933. Several other countries gave their September figures.

Sweden stood out among the nations, for she was the only one of the 30 to show an increase in the rate of her improvement over the Spring. Her record for this year to the end of the Summer was a 40 per cent reduction in unemployment as compared with 1933. There were decreases from both last September and last June in Austria, Germany and the Saar Basin, but the number of idle increased, as compared with the Spring figures, in France, Bulgaria, the Irish Free State, Poland, Portugal, Holland, Czechoslovakia and Spain. The British total was under September 1933 but slightly above May 1934.

The Labor Bureau's report was accompanied by the statement that figures given for "certain countries, so far from expressing the real situation, cannot be regarded as anything more than symptomatic."

November 1934



Shown above are identifications of Diebold Cash Handling Methods. A Shield on your entrance, a sign within and a label on each unit.



DIEBOLD

SAFE & LOCK CO.
CANTON, OHIO

PROTECTION HEADQUARTERS

For certified protection of records and wealth from fire, burglary and holdup

Tellers May Forget But These DIEBOLD Locks Never Do

● Here is news for the entire banking fraternity—news that means outstanding progress in the improvement of cash handling methods. The principle of delayed control over cash reserves is well known. Now Diebold goes a step farther and adds Automatic Re-locking. Reason: Tellers are frequently detained, after they have set up the delay period, by duties at the window or errands to other parts of the bank. Result: Huge sums are left exposed in reserve chests or lockers to holdup risks. Solution: A double check on the human factor in the safe handling of cash reserves—AUTOMATIC RE-LOCKING IN THREE MINUTES!

● The importance of this development can only be realized by those who have made a careful analysis of holdup histories. The applications are many. The improvement important to the point of being a milestone in cash reserve protection.

● Let us demonstrate just how this automatic re-winding and relocking Delayed Control Combination Lock functions. It bears the Underwriters' Label of approval. It exemplifies the logic of going to Protection Headquarters if you want the latest, most effective equipment in Cash Handling Methods. Write us.

There is money in the retail automobile business for the *right man* with the OLDSMOBILE FRANCHISE



RECORDS for 1934 prove conclusively that the right man, adequately financed, can make money with the Oldsmobile franchise.

Oldsmobile dealers in every section of the United States have been reaping rich rewards in terms of net profits. Their own efforts have had much to do with the degree to which they have profited. So has the great public approval of Oldsmobile cars. So, too, has the Oldsmobile policy of helping its dealers, not only to make sales, but also to make money.

Oldsmobile is choosing its dealers with care, building a strong retail selling organization. Once it signs a dealer, Oldsmobile makes every effort to assure him a permanent and profitable business.

This is a subject which may well interest a banker in any community where Oldsmobile wishes to be represented. The opportunity for a sound investment offered by the Oldsmobile franchise is one which deserves your careful consideration.

Oldsmobile Dealers Themselves Tell of Their Profit Opportunities

"... The sales appeal proved to be such that we were able to register in fourth place among all cars in less than 60 days, and most important, at a profit. Incidentally, we were able to show a profit on the first month's operation."

WESTERN OLDS COMPANY
FORT WORTH, TEXAS

"... Our net profit year-to-date will equal our investment at the end of the month, which is far above our original expectations."

COFFEEN-FORSTER MOTOR COMPANY
MUSKOGEE, OKLAHOMA

"... We are pleased to inform you that during this period our franchise has shown us a very substantial return on the capital invested, as a matter of fact 66 per cent."

RANES OLDSMOBILE CORPORATION
EVANSVILLE, INDIANA

"... We are anxious for you to know how we feel with reference to our Oldsmobile franchise, as it has been highly satisfactory from a profit standpoint."

SCHOTT-LONG CO.
CINCINNATI, OHIO

"... Our profits have been very satisfactory. We have made a net profit of 25.4 per cent on our investment in the first six months of this year."

MCCREA-ADCOCK, INC.
ST. PETERSBURG, FLORIDA

OLDS MOTOR WORKS

Lansing, Michigan

Business Sentiment

IT is, of course, difficult to sound business sentiment accurately in a country as large as the United States. The most readily available instrument for ascertaining the views of bankers, industrialists and others who are charged with maintaining the country's business life is the survey, and this device has been used freely from time to time during the depression.

Several such inquiries have been conducted during the last few weeks by organizations representative of the employed capital of America. The purpose has been to determine the attitude of business and the general public toward present prospects and problems, their reasons for confidence or lack of confidence, and their opinions as to what might be done toward strengthening the recovery movement in which everyone is concerned.

On the whole, these soundings indicate an opposition to Government interference with private enterprise, an improvement in the mortgage situation, a belief that inflation is more probable, mixed opinions as to N.R.A., and considerable uncertainty with respect to Administration policies toward business in general.

Editors

RETURNS from a questionnaire sent by the research staff of the National Industrial Conference Board to editors of American newspapers and farm journals offer an interesting survey of public opinion on some of the more important economic and social questions confronting the country.

More than 12,000 editors were asked to state, so far as possible, the attitude of the public in their communities toward the various issues. Answers received totaled 5,050, representing a circulation of 24,843,677.

One question was what factors, in the judgment of the editors, would make the largest contribution to business confidence. From 66 per cent to 73 per cent of the responses listed decreased Government control, decreased Government expenditure, a balanced budget, and currency stabilization. Currency inflation was favored by 15.7 per cent and increasing Govern-

ment control by 8.8 per cent. Approximately 24 per cent mentioned tariff reduction, while about the same number favored no change in the tariff. Higher tariffs were advocated by slightly more than 16 per cent.

In general, the replies indicated that public opinion, as thus reflected, did not favor Government crop control, curbs on factory output, legal restriction of competition, or price-fixing for

factory or farm products. It opposed Government competition with private enterprise, Government acquisition of the banking system and a further increase in the national debt.

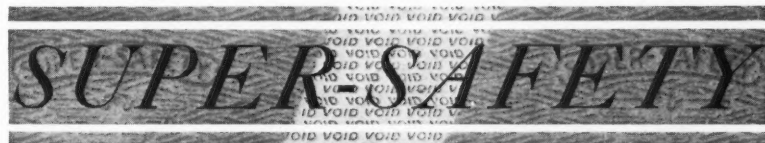
On the other hand, such social legislation as a compulsory Government system of unemployment insurance met with a more friendly response, while old age pensions were favored.

To the question, "Does public opin-



Funds are ever in transit

Signatures on bank checks release millions of dollars daily, and whether they whirl through the clouds in a fast mail plane or click-click-clickity-click across glistening railroad tracks, they are ever in transit—keeping credit alive



MOST business men and banks are particular about the check forms they sign. They know the staggering total the criminal world exacts annually through check alteration and counterfeiting. They insist upon checks that protect themselves. Super-Safety bank checks do this. The new feature of the "VOIDS" that develop when ink eradicator is applied provides increased safety and offers a merchandising value which banks recognize and are emphasizing to an interested public.

Ask the Todd man to demonstrate New Super-Safety. Gain for your bank these advantages. Imprinting plants in principal banking centers and branch offices in leading cities

THE TODD COMPANY, Inc.  ROCHESTER, NEW YORK

Super-Safety Checks • Pass Books and Check Covers • Stationery and Bank Supplies
Registered Protod-Greenback Checks • The Protectograph • Check Signers

ion in your community favor control of the management of private business enterprises by Government bureaus or officials?" the responses were divided as follows: yes, 256, or 5.3 per cent; no, 4,563, or 93.6 per cent; doubtful, 55, or 1.1 per cent.

The fixing of selling prices by the Federal Government for factory products was favored in 796 replies, or 17 per cent, and opposed in 3,784, or 80.8 per cent, with 101, or 2.2 per cent, doubtful. Farm price fixing met with assent from 1,154 communities, or 23.5 per cent, and with opposition in 3,609, or 73.6 per cent, 140, or 2.9 per cent,

being doubtful. Government restrictions on crop planting received the following vote: yes, 867, or 17.6 per cent; no, 3,919, or 79.6 per cent; doubtful, 135, or 2.7 per cent. Government restrictions on manufacturers as to the amount of goods they shall produce met with favor in 524 places, or 11 per cent, but was opposed in 4,153, or 86.9 per cent, the doubtful replies numbering 103, or 2.2 per cent.

The vote on the Government's taking over the banking system was: yes, 1,691, or 35.6 per cent; no, 2,839, or 59.7 per cent; doubtful, 226, or 4.8 per cent.



"We specified 'L-M-C' for its SOUND PROTECTION

— and saved \$216.98 on our Fleet and Compensation insurance last year."*

\$216.98 is a substantial saving. Yet it is typical of the economy fleet owners and employers have secured in the "L-M-C" as the result of the dividends paid them each year since organization.

This saving is the result of the time-tested mutual plan of operation. Risks are carefully selected. Overhead is low. And the profits that result, over and above provisions for reserves, are returned to policyholders in dividends.

Moreover, whenever you specify "L-M-C" you secure sound protection and efficient service. This leading mutual company has over \$17,000,000 of assets and more than \$2,385,000 of net surplus. Hundreds of representatives located from coast to coast have built a national reputation for the prompt payment of proper claims.

Combine security, service and saving in your Automobile, Compensation and general casualty insurance. Call your nearest representative or write the Home Office for complete information.

*Name on request.

LUMBERMENS MUTUAL CASUALTY COMPANY

THE SYMBOL OF



SOUND PROTECTION

JAMES S. KEMPER, President

Home Office: Mutual Insurance Building, Chicago, U. S. A.

Organized originally for lumbermen and now accepting good risks in all classes of business.

Opposition to Government competition with power companies was expressed by 71.8 per cent of the editors, while 25.5 per cent voted favorably and 2.7 per cent were doubtful. The question regarding Federal competition with transportation companies brought 87.4 per cent negative replies, 11.1 per cent in favor, and 1.4 per cent doubtful.

A system of unemployment insurance was represented as being favored in 39.5 per cent of the communities and opposed in 58.2 per cent, 2.3 per cent being doubtful. The old age pensions query drew 64.6 per cent favorable responses, 33 per cent unfavorable and 2.4 per cent doubtful.

Responses to the question, "Does public opinion in your community favor further increase in the national debt?" were: yes, 7.3 per cent; no, 89.1 per cent; doubtful, 3.6 per cent.

Business Executives

REPRESENTATIVES of New England business, in a survey conducted by the New England Council, have expressed their opinion regarding the extent, causes and remedies for a "lack of confidence".

The Council sent letters to 1,530 firms, individuals and associations, and received 521 replies from which it tabulated its report. Nearly 50 per cent of the responses were from manufacturers, nearly 25 per cent from bankers, and the remainder from wholesalers and retailers, hotels, public utilities, publishers, investment houses, insurance interests, agricultural interests, real estate firms, advertising agencies, construction, organization executives, industrial engineers, railroad officials and other individuals.

"Lack of confidence" with respect to their own businesses was reported in 76.2 per cent of the replies; 16.1 per cent reported no "lack of confidence." In regard to general business, 485 of the responses, or 93.1 per cent, found confidence lacking.

The Council found that the six major causes of "lack of confidence", listed in order of frequency of mention in the answers, were:

(1) Uncertainty regarding Administration policy toward business; (2) Government interference with and control of business; regimentation; (3) excessive expenditures, borrowings, un-

BANKING

balanced budget; (4) uncertainty regarding monetary policy; fear of inflation; (5) experiments and reforms; (6) distrust of President's advisers.

The six major suggestions for restoring confidence, listed in order of frequency of mention by the business men who answered the questionnaire, were:

(1) Adopt, state clearly, and adhere to a more helpful policy toward business; (2) stop Government interference with and regulation of business; (3) reduce expenditures; balance the budget; (4) stop experiments and reforms; "turn to the right"; (5) replace present advisers with "conservatives"; with "sound," "practical," "experienced" advisers; with business men; (6) adopt sound monetary policy.

Credit Men

NINETY per cent of the membership of the National Association of Credit Men, comprising 20,000 industrial, wholesaling and banking concerns, believes that the possibilities of inflation are growing, but opinion is more evenly divided as to the effects on business of both the N.R.A. and the November election results.

A questionnaire circulated by the association among its members disclosed that the Far West and the South unanimously thought the prospects for inflation were increasing. The ten per cent which replied in the negative was composed of business executives in the eastern and central sections of the country.

The answers to the question: "What is the reaction to N.R.A. in your territory?" nearly balanced. Fifty-two per cent were unfavorable and 48 per cent favorable. Sentiment was exactly divided in the East; in the central states more members were favorable than unfavorable; the South disclosed an even division; the vote in the western states was two to one unfavorable.

Another query asked whether the firm canvassed was "code happy," the response being 55 per cent negative and 45 per cent affirmative. Eastern concerns indicated dissatisfaction, the central states voted favorably, the South was equally divided, and the response in the West was slightly unfavorable.

Somewhat more than a majority of the members thought the election would influence business adversely. About 40 per cent felt it would have no

bearing either way, and 10 per cent looked for a constructive reaction.

With respect to inflation, 60 per cent of the business enterprises reported they were making no move to hedge, while approximately 30 per cent admitted an accumulation of inventories. Three per cent indicated that foreign balances, as created, were being left abroad.

Some 55 per cent of the association membership said Section 7-A of the National Recovery Act had had no effect on their businesses because they were not confronted with union problems, but 40 per cent found that this

clause had hampered the labor situation. In the East, half the industries consulted felt the section had had no effect, 45 per cent definitely said it had been a hindrance, and 5 per cent thought it had helped. Sentiment in other sections disclosed roughly the same trend.

Twenty-five of the 28 members of the association's board of directors thought business conditions had improved and 21 anticipated further improvement. The opinion was unanimous that a certain measure of stabilization in the national program would constitute a most helpful ingredient.

1863



1934

DURING seventy years of conservative experience under varying economic conditions, this bank has had continuing relations with correspondent banks in every section of the country.

For nearly thirty years the Banks and Bankers Division has been the point of contact through which world-wide facilities have been available to correspondents.

**The First National
Bank of Chicago**

Charter Number Eight

A British View of the F. R. S.

USING a review of Dr. S. E. Harris' book, *Twenty Years of Federal Reserve Policy*, as a vehicle, *The Economist*, London, recently made some interesting comments on the Reserve System.

The discussion is introduced by the observation that the twentieth anniversary of the Reserve is being "celebrated in the United States by talk of converting the present system of 12 banks, owned by their member banks but

largely controlled by a Federal Reserve Board appointed by the President, into a single central bank under the undisputed ownership and control of the Federal Government."

"This plan, it is believed," remarks *The Economist*, "has not yet secured the approval of the President, but it is obviously a possibility that legislation of this character will be introduced into the next session of Congress."

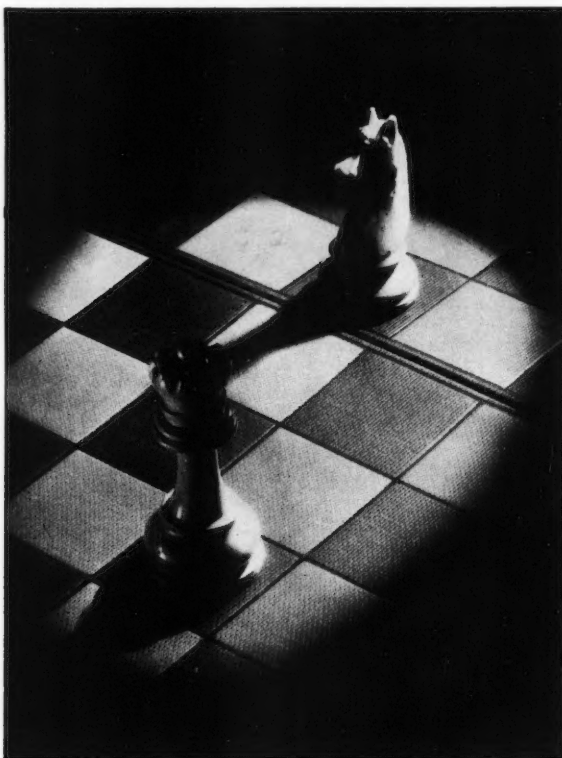
Dr. Harris' main conclusion is found to be that the Federal Reserve System "never succeeded in establishing an effective control of credit."

"It sometimes contrived to expand credit," continues *The Economist*, "but never to contract it. Its policy has consequently had a constant inflationary base. This conclusion holds very little comfort for the future. The System is now dominated by an inflationary Government; its actual and potential gold reserves are enormously greater and the member banks' reserve balances are 75 per cent higher than in August 1929. To ward against these inflationary possibilities the Reserve System has, it is true, one new weapon to its hand, namely, the power to decree an increase in the minimum reserve percentages of member banks. But the usual fatal solicitude for the small country bank will probably prevent its being used, even if the Federal Reserve Board, with its predominantly political constitution, can make up its mind early enough. All the indications point to the belief that the American banking system has learned nothing from the results of its inflationary bias in the years before the crisis."

Moral suasion, the "favourite weapon of politicians," was "the only policy upon which the Federal Reserve Board and the Federal Reserve banks could agree in 1928-29."

"Its attraction arose out of the dilemma in which the authorities found themselves as the great inflation gathered way. To have pursued a vigorous policy of making money dear would have killed speculation on the stock exchange, but it would have inconvenienced general business. There is a curious unwillingness in America, even today, to admit that Wall Street was not the only speculator in 1928-29, and at the time it was regarded as axiomatic that money rates must not be raised throughout the country. Hence the policy of keeping money cheap but 'morally persuading' member banks not to increase their speculative loans. The events of 1928-29 effectively demonstrated that credit cannot be departmentalized, and the surprising thing is not that the policy of moral suasion failed but that it was persisted in for so long and that it still retains its adherents in high places."

"Qualitative discrimination in extending credit arises out of the same fallacy as moral suasion."



GALLOWAY

... AS IN
CHESS

Forethought Wins

Since 1884 the Standard Accident Insurance Company of Detroit has been guarding the welfare of its policyholders with sound casualty insurance...

over 136 millions of dollars have been paid on behalf of Standard's assureds.

☆ Today, through their forethought, more than a million people enjoy the security of Standard's protection. ☆ Responsible agents and brokers everywhere can supply you with insurance and bonds in this 50-year old institution.

**STANDARD ACCIDENT INSURANCE COMPANY
of Detroit**

Italy's Unions and Guilds

IN Fascist Italy the government recognizes not only the privileges of organized labor but its responsibilities. There are unions of employers as a further check to domestic unrest.

How these "federations" operate is described in a booklet published by the General Fascist Confederation of Italian Industries in celebration of Fascism's twelfth year.

An act of April 1926 gives legal status to organizations of workers and those of employers, properly registered, their purpose being to arrive at agreements by collective bargaining on conditions of work. It was foreseen that any over-organization of employees, as well as of employers, might be as monopolistic as the medieval guilds. This danger was avoided by maintenance of the open shop.

Twin unions of employees and employers are organized in agriculture, industry, commerce, credit and insurance, inland communications, and sea and air transports. The unions, however, are not set up for the sole purpose of collective bargaining. They must devote attention to educational and welfare work and to the general progress of the occupations they represent.

Under the same legislation of 1926, any infringements of rules laid down by

collective bargaining are illegal. This applies to the strike as well as the lock-out. The act also provides the machinery for the arbitration of disputes. Such machinery is not temporary but is constantly available, performing many other governmental duties.

The guild system in Italy, unlike the unions, is a horizontal organization of production. It was provided for in the guild act of February 1934.

Mussolini stated:

"I desire work to be organized in function of the interests of consumers, producers, wage-workers, technicians. The State should not intervene except as supreme umpire, the protector of the community. It is the task of the guilds to regulate all the problems of production, for we must not make just anything, anyhow. That is folly and leads to catastrophes."

\$16,100,000

BEING TAKEN AWAY FROM INVESTORS

Reductions in residential electric rates since 1928 are taking away from investors annually \$6,000,000

This is a saving of only 2c a day for the average residential electric customer.

Reductions in commercial and industrial rates since 1928 are taking away . . . 3,800,000

Increases in taxes at the rate of \$9,000 a day since 1928 are taking away from investors 3,300,000

The recent change in the corporation income tax law, it is estimated, will this year take away. 3,000,000

Total being taken away from investors in the Associated System in one year . \$16,100,000

The principal result of these forces is to impair the savings of a large number of thrifty small investors. When, however, the far-reaching consequences are sufficiently realized by investors, and their protests become sufficiently vigorous, they will receive the consideration they deserve.

Look for a discussion of these problems in the October issue of the Associated Magazine, which is a special security holders' number. The magazine is sent free to all Associated security holders. Others may obtain it for 10c.

ASSOCIATED GAS & ELECTRIC SYSTEM
61 BROADWAY, NEW YORK



Mussolini (center, in light uniform) inspects a canal that is being constructed through the old Pontine marshes. The surrounding land will eventually be made habitable



ACME

A Federal Reserve System

(CONTINUED FROM PAGE 46)

The transfer of central banking powers under the act of January 30, 1934, to the Treasury, has paved the way for the further weakening of the Federal Reserve System, already badly weakened by earlier events.

The Federal Reserve System itself has become "frozen" and is unable to resist, by the usual money market methods, the disorganization of American finance growing out of the plan of filling the banks with illiquid government obligations.

In these circumstances, the banking system is passing through a time of critical emergency from which it may emerge either as a Government system, or as a greatly weakened privately-owned system.

Should it emerge in either position, there remains the question what shall be the form to be given to the System in the future. It must, in either case, be rescued from a possible repetition of the evils which have brought it to its present position.

Such rescue is proposed in various ways—perhaps through the assumption of control of deposit banking by the Federal government while trust and savings functions are left to the states; perhaps through new legislation which shall bring all banking under Federal supervision, but with fresh safeguards against bad and dangerous banking.—H. PARKER WILLIS, JOHN M. CHAPMAN, 1934.

There can be no doubt of the designs of the politicians. Their next step seems intended to be that of exercising complete central banking powers through the application in practice of lending and credit-granting authority. They may take actual physical possession of the Federal Reserve banks, or they may seek the establishment of a single central banking institution, independent of the latter. . . .

What is wanted is to consolidate the entire control of bank credit in the hands of the Treasury. The purpose of such consolidation is to bring about a complete power of directing credit. Our government advisers have never abandoned the notion of directing the course of commodity and security prices by dictating the discounting and open market policy of central banking. . . .

Whatever be the technique adopted,

the proposal to organize a central political bank is nothing more than a plan to consolidate and coördinate the immense Government control over banking which has been acquired during the past eighteen months. . . .

Political management of banking and especially of central banking has proven, must invariably prove, the ultimate, the all-comprehensive, curse upon a nation's finance and business.

—H. PARKER WILLIS, 1934.

The quotations used in this article were chosen with a view to tracing the trend of banking thought in the United States after the panic of 1907, thus making a contribution to the study of problems which currently confront both bankers and Congress.

The excerpts were taken from the published opinions and writings of the men quoted.

Municipal Credit

By DONALD S. MACFADDEN

Manager, Municipal Department,
Standard Statistics Company, Inc.

MUNICIPAL credit has staged a sharp comeback from the dreary outlook and chaos that reigned during the Winter and Spring of 1933. Only the casual observer, however, is lulled into a feeling of false security and interprets the general turn of affairs as a panacea for all formerly existing municipal ills. A survey of basic factors clearly does not warrant broad optimism for, disregarding individual situations, the country as a whole is being figuratively "put on the spot" by a melange of cross currents and diverging trends which are reflected in regional conditions varying to absurdly diametric extremes.

The arrest in the decline of municipal credit was followed by a sharp rebound which, over ensuing months, brought sweeping market readjustments for practically all classes of municipal bonds. This price rise has in many instances overshot the mark of equitable valuation and discounted both realized

and prospective improvement months in advance and has failed to give credence to the possibility of future difficulties.

Although a projection of the 1933 conditions did not occur and while the whole municipal atmosphere is more hopeful, and rightly so, tax-exempt investors should avoid lapsing into the sanguine attitude that has, unfortunately, characterized this field so much in the past. The present drift of conditions admittedly permits of easier breathing, but serious consideration of essential features emphasizes the fact that thus far it may be only a "breathing spell".

The most important point is that the decline has been arrested, but thus far evidence of a sustained normal recovery is not widespread, and sound judgment balks at placing implicit faith in the barrage of experimentation that is providing artificial stimulus. It would be well to keep in mind that practically the same problems now exist, although perhaps in more latent form, that were weighing down the municipal credit structure some months previous. The same, and in many cases an augmented, debt load is present. Fiscal problems have been somewhat alleviated by increased collections, but the specter of unemployment, regardless of expanded Federal appropriations, again threatens during the coming Winter to offset what revenue gains have been accomplished. A wave of increasing taxation clearly impends, and, although refinancing operations have been facilitated by improved markets and by statutory meas-



KEYSTONE
BANKING

ures in some states, the productivity of local wealth still remains the determining factor and has yet to demonstrate on its own initiative the recuperative powers being forced upon it artificially.

The strength of a municipality must be measured by the productivity of its own resources—its industries, commercial enterprises, homes and intangibles that compose the taxable wealth and inherent strength of a municipality. Tax collections do not in any sense determine municipal credit. Other more basic factors, such as the weight of indebtedness, productive wealth, management and fiscal policies, have predetermined whether a community represents a sound risk, although tax receipts do represent the guiding index to current conditions.

Underlying these essential points is the governing force of local and general conditions. Local conditions occupy a position of preëminence because, after all, they touch the source of primary income independent of the fact that the local situation is frequently far different from a cross section of the general picture. The trend of general conditions, however, is directly relevant and may stimulate local affairs or affect them adversely, depending largely upon the proportionate importance of the individual situation to that of our economic fabric as a whole.

A glance at the general economy of the country shows the regional dependence of many municipalities upon one or several basic or predominating industries, the success or failure of which measures local prosperity and is, through tax-paying ability, promptly reflected in local credit. Thus, governing conditions may be translated into terms of municipal credit and, particularly during transitional periods, represent a determining factor in the recovery or decline of local credit and consequently demand close consideration by those directing municipal investment programs.

Due to the unprecedented activity of governmental agencies, artificial factors are also now present that must be considered. Crop control and reduction

have brought benefits to some sections, allotments through processing taxes and the hog curtailment program extend additional advantages to others, all of which, however, represent abnormal revenue situations due to the absence of a clearly defined long term policy by the Administration. Tax payments have likewise been stimulated in many sections by the activities of the Farm Credit Administration and the Home Owners' Loan Corporation in refinancing both rural and urban mortgages, thus making cash available to cover accumulated tax arrears. These factors

have abetted normal receipts over the past nine months and materially assisted in bridging the gap intervening a general restoration of tax-paying ability. While definite mortgage relief has been rendered in substantial volume and farm income sectionally augmented, there is no assurance of comparable disbursements over following years.

The refinancing of mortgages should be of lasting benefit, although the other factors, due to lack of definition of policy, appear more or less temporary expedients. The program of Federal relief is likewise of uncertain duration.

NATIONAL SURETY CORPORATION

New York, N. Y.

VINCENT CULLEN, *President*

Financial Statement — June 30th, 1934

ASSETS

| | |
|---|------------------------|
| Cash | \$ 1,203,788.29 |
| *Bonds and Stocks | 8,840,775.00 |
| Premiums in course of collection, not overdue | 1,103,730.52 |
| First Mortgages and Real Estate | 398,752.82 |
| Accrued Interest and Rents | 103,167.30 |
| Accounts Receivable | 295,018.74 |
| Home Office Building | 950,000.00 |
| TOTAL ASSETS | \$12,895,232.67 |

LIABILITIES

| | |
|--|------------------------|
| Reserve for Unearned Premiums | \$ 5,077,751.70 |
| Reserve for Claims | 1,991,864.90 |
| Reserve for Commissions and Expenses | 448,653.71 |
| Reserve Paid in for Claims and other contingencies | 1,376,962.36 |
| Capital | 1,000,000.00 |
| Surplus | 3,000,000.00 |
| TOTAL LIABILITIES | \$12,895,232.67 |

*This amount represents actual market quotations as of June 30th, 1934.

Federal aid in various forms has stimulated tax payments and affected municipal expenditures in many districts, although such assistance is of uncertain duration. In the picture, Secretary Ickes, Public Works Administrator, is speaking at Atlanta prior to launching a slum-clearing project

Building and Loan Associations

DEFINITE improvement in the collection of principal and interest on home loans held by building and loan associations in many parts of the country is reported for the third quarter of the year by the United States Building and Loan League.

There are several reasons for regarding this circumstance as helpful in furthering the national housing program. Philip Lieber, president of the

League and chairman of its F.H.A. liaison committee, points out that under normal expectancy \$200,000,000 would be paid into the associations for reloaning purposes during a three-month period in the form of monthly principal reductions on the 2,000,000 mortgage loans the institutions hold. An approach to this normal flow of funds means a greatly expanded sum available for modernization loans.

Inasmuch as modernization loans are made primarily on the basis of character risk and credit standing, revival of the debt-paying habit among home owners brings more of them within reach of repair loan facilities.

The improvement in collections suggests that confidence is returning to home owners. Furthermore, the turn toward a normal debtor-creditor relationship between savings institutions and borrowers shows a lessening disposition, Mr. Lieber believes, to depend upon Government assistance.

"Of course there is evidence in this pickup in collections that employment conditions, at least in some sections, are improved," he observes. "We know that a great majority of the borrowing home owners pay their debts when they are able to do so. The entire stability of the home mortgage structure has been built upon this dependability of the home owning class. With the improvement in employment, and with the clearer understanding of the limitation of Government financing agencies to the acute distress cases, we may look forward to substantial rebuilding in the home mortgage structure in the coming months.

"Home modernization, according to word from the Federal Housing Administrator, has already been approved as a lending proposition by more than 8,000 financial institutions in the country. To match that approval the campaign must give rise to a feeling among millions of borrowers that home modernization as a spending proposition is satisfactory. I believe the sentiment reflected in renewed payments by the existing home borrowers, and the effect in financial circles of that attitude, will bring about the rapid ripening of home owner sentiment for the modernization loan."

THE Federal Savings and Loan Insurance Corporation for the insurance of deposits in building and loan associations was modestly launched on October 10 with the approval of applications for membership made by 37 of the six to seven thousand potential members. Membership will be immediately increased by the addition of the 550 Federal savings and loan associations already organized under the housing act, their membership being compulsory.

MANUFACTURERS TRUST COMPANY

*Condensed Statement of Condition as at close of business
September 29, 1934*

RESOURCES

| | |
|--|-------------------------|
| Cash and Due from Banks | \$ 75,029,076.67 |
| U. S. Government Securities | 182,990,951.63 |
| <small>(Includes Bonds Guaranteed by the United States Government)</small> | |
| State and Municipal Bonds | 21,918,104.21 |
| Other Securities | 49,203,044.53 |
| Loans and Bills Purchased | 165,890,195.00 |
| Mortgages | 25,570,322.00 |
| Banking Houses | 15,690,196.29 |
| Other Real Estate Equities | 4,498,336.19 |
| Customers' Liability for Acceptances | 17,836,831.86 |
| Accrued Interest and Other Resources | 4,550,751.03 |
| | <u>\$563,177,809.41</u> |

LIABILITIES

| | |
|--|-------------------------|
| Capital | \$ 32,935,000.00 |
| Surplus and Undivided Profits | 10,297,483.19 |
| Capital Notes | 25,000,000.00 |
| Reserves | 21,716,742.07 |
| Dividend (Payable October 1, 1934) | 411,687.50 |
| Outstanding Acceptances | 19,841,079.37 |
| Deposits | 452,975,817.28 |
| | <u>\$563,177,809.41</u> |

HARVEY D. GIBSON, *President*

Head Office: 55 Broad Street, New York City

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School Savings, 1933-1934

By

W. ESPEY ALBIG

THE net gain in school savings for the year ended June 30, 1934, was \$3,690,560.07 over the volume of the preceding year. For the two preceding years the withdrawals had exceeded the deposits. Thus deposits made in more prosperous times came to the aid of the hard-pressed pupils. A year ago deposits were greater than withdrawals in only 12 states, and the loss for the year, covering the whole country, was \$2,250,000. A year earlier the loss had reached almost \$3,000,000.

In the year just passed, 24 states showed a preponderance of deposits over withdrawals. The net balance is \$1,375,307.86. The gross deposits were \$10,727,505.33, an increase over the preceding year of \$394,935.78 or 3.82 per cent. The number of schools affording school savings decreased from 10,890 to 9,471, caused in part by lack of depository banks. This, too, affected the number of participants, which decreased 9 per cent from 3,080,685 to 2,802,899, a loss of 277,786.

The gain in school savings registered during the year came not so much through increased deposits as through less withdrawals. The withdrawals did not indicate the stark need of necessities—food, clothing, medicine and shelter—as was the case a year ago. Discerning judgment and choice again appear. Among other things, sums accumulated through school savings were used to buy pianos, to pay interest on mortgages, to finance trips to "A Century of Progress" and to Washington, D. C.

Although school savings are rapidly recovering from the blight of the past few years, there remain handicaps to their progress. A handicap to school savings at present is the current cynicism which would regard saving as futile. Losses in banks, in business, in investments, in loans, have been so great and far reaching as to touch almost every person who had attempted to achieve financial independence. This

does not indicate that saving was at fault. The trouble was in a totally different quarter. It arose out of a collapse of the business structure. The savings which the cynical regard as futile are today supporting our own Government. The banks use the money deposited in them to buy Federal issues. The money in the banks represents the savings of many people.

SUMMARY AND COMPARISON 1932-1933 and 1933-1934

| STATES | Number of Schools | | Number Participating | | Deposits | | Net Savings | |
|---------------------------------|-------------------|---------|----------------------|-----------|-----------------|-----------------|-----------------|----------------|
| | 1932-33 | 1933-34 | 1932-33 | 1933-34 | 1932-33 | 1933-34 | 1932-33 | 1933-34 |
| United States.. | 10,890 | 9,471 | 3,080,685 | 2,802,899 | \$10,332,569.55 | \$10,727,505.33 | \$2,315,252.21† | \$1,375,307.86 |
| Alabama..... | 71 | 65 | 18,733 | 23,084 | 77,086.95 | 119,638.98 | 29,758.23† | 28,251.60 |
| Arizona..... | 1 | 1 | 200 | 192 | 89.81 | 144.79 | 47.36 | 78.45 |
| Arkansas ¹ | | | | | | | | |
| California..... | 2,393 | 2,391 | 430,667 | 430,592 | 812,854.45 | 969,463.24 | 219,754.47† | 356,875.26 |
| Colorado..... | 3 | 3 | 466 | 338 | 483.16 | 577.92 | | |
| Connecticut..... | 449 | 546 | 102,555 | 95,663 | 543,414.13 | 644,803.49 | 42,333.25† | 186,673.95 |
| Delaware..... | 64 | 56 | 31,183 | 30,218 | 78,369.37 | 82,211.82 | 45,828.29† | 16,777.54† |
| Dist. of Columbia..... | 42 | 5 | 4,322 | 421 | 25,912.08 | 2,340.76 | | |
| Florida..... | 25 | 25 | 16,701 | 18,028 | 26,206.74 | 21,788.13 | 19,559.62† | 5,615.03† |
| Georgia..... | 61 | 80 | 18,895 | 6,185 | 84,207.00 | 110,398.22 | 31,720.33† | 13,583.59 |
| Hawaii..... | 63 | 62 | 3,858 | 3,300 | 42,244.75 | 20,693.18 | 42,244.75 | 20,693.18 |
| Idaho..... | 6 | 8 | 931 | 1,640 | 364.42 | 6,715.79 | 3,331.52† | 3,228.86 |
| Illinois..... | 249 | 145 | 70,824 | 43,159 | 227,060.51 | 207,800.39 | 129,918.63† | 18,341.44† |
| Indiana..... | 146 | 49 | 38,726 | 13,855 | 91,251.38 | 40,047.51 | 74,610.60† | 13,609.16† |
| Iowa..... | 99 | 68 | 23,474 | 20,832 | 76,190.45 | 78,679.12 | 82,689.87† | 24,063.96 |
| Kansas..... | 15 | 15 | 4,274 | 3,914 | 27,904.18 | 27,980.34 | 6,629.63† | 1,814.52 |
| Kentucky..... | 25 | 25 | 1,707 | 1,526 | 4,484.51 | 4,241.05 | 2,631.96† | 3,520.06† |
| Louisiana..... | | | | | | | | |
| Maine..... | 284 | 251 | 25,311 | 25,472 | 77,738.07 | 149,956.31 | 10,184.25 | 51,823.48 |
| Maryland..... | 109 | 108 | 40,853 | 40,922 | 68,817.26 | 74,195.58 | 61,080.40 | 71,878.34 |
| Massachusetts..... | 856 | 735 | 146,962 | 131,236 | 634,580.69 | 598,246.12 | 78,526.52 | 198,301.46 |
| Michigan..... | 200 | 35 | 47,627 | 12,258 | 86,309.77 | 11,381.82 | 143,116.45† | 7,829.95† |
| Minnesota..... | 274 | 203 | 98,060 | 79,312 | 326,392.15 | 316,605.38 | 79,469.32† | 22,802.58 |
| Mississippi..... | 2 | 5 | 316 | 730 | 1,997.98 | 5,110.74 | 911.46 | 2,422.84 |
| Missouri..... | 185 | 108 | 59,160 | 33,108 | 146,658.63 | 157,259.06 | 95,168.83† | 5,460.55 |
| Montana..... | | | | | | | | |
| Nebraska..... | 4 | (1) | 612 | (1) | 3,550.35 | 1,840.51 | 1,385.99† | 434.96† |
| Nevada..... | 107 | 92 | 6,974 | 6,677 | 23,908.17 | 24,523.04 | 452.95 | (1) |
| New Hampshire..... | 640 | 541 | 162,728 | 164,309 | 23,908.17 | 24,523.04 | 668.80† | 5,766.14 |
| New Jersey..... | 6 | 6 | 2,101 | 2,178 | 816,309.76 | 836,621.23 | 229,503.98† | 13,449.49† |
| New Mexico..... | 1,426 | 1,391 | 763,755 | 816,569 | 2,153,698.53 | 2,256,779.79 | 2,616.91 | 4,503.93 |
| New York..... | 33 | | 5,573 | | 27,151.89 | | 28,131.95 | 473,035.05 |
| North Carolina..... | 20 | 14 | 934 | 487 | 4,010.76 | 2,405.70 | 379.79 | 829.95 |
| North Dakota..... | 417 | 337 | 106,761 | 86,017 | 361,101.03 | 426,284.72 | 169,048.69† | 33,561.82 |
| Ohio..... | 6 | (1) | 958 | (1) | 1,190.01 | (1) | 906.13† | |
| Oklahoma..... | 100 | | 67,499 | | 132,184.86 | | 66,646.97† | |
| Oregon..... | 1,359 | 887 | 432,497 | 383,605 | 1,904,410.31 | 1,939,376.89 | 484,009.90† | 37,946.14 |
| Pennsylvania..... | 339 | 473 | 111,887 | 119,376 | 533,855.79 | 634,233.29 | 182,147.86† | 2,819.71† |
| Rhode Island..... | | | | | | | | |
| So. Carolina ¹ | 33 | 30 | 6,058 | 4,471 | 42,683.21 | 30,488.54 | 19,651.84† | 19,175.81† |
| Tennessee..... | 35 | 33 | 6,920 | 5,491 | 74,201.86 | 80,897.18 | 83,870.00† | 19,487.02 |
| Texas..... | 220 | 212 | 72,205 | 68,436 | 185,368.43 | 228,075.29 | 12,636.24 | 52,859.43 |
| Utah..... | 7 | (1) | 1,696 | (1) | 1,475.04 | (1) | 445.09† | (1) |
| Vermont..... | 8 | 4 | 1,428 | 280 | 1,201.89 | 422.60 | 882.03 | 481.38† |
| Virginia..... | 47 | 42 | 12,908 | 11,219 | 65,513.91 | 48,363.36 | 22,299.59† | 97,446.65† |
| Washington..... | 126 | 123 | 62,639 | 59,108 | 297,308.77 | 307,944.75 | 119,160.28† | 17,113.94† |
| West Virginia..... | 101 | 83 | 19,082 | 18,763 | 50,533.99 | 62,766.54 | 12,304.05† | 3,687.89 |
| Wisconsin..... | 232 | 212 | 49,665 | 39,928 | 181,133.92 | 165,253.10 | 151,869.85† | 27,707.11† |
| Wyoming..... | 2 | 2 | | | 1,188.54 | 1,032.26 | | |

| TOTALS—UNITED STATES | Number of Schools | Number Participating | Deposits | Net Savings |
|----------------------|-------------------|----------------------|-----------------|----------------|
| 1933-1934..... | 9,471 | 2,802,899 | \$10,727,505.33 | \$1,375,307.86 |
| 1932-1933..... | 10,890 | 3,080,685 | 10,332,569.55 | 2,315,252.21† |
| 1931-1932..... | 12,686 | 3,106,510 | 17,680,364.92 | 2,926,902.12† |
| 1930-1931..... | 14,628½ | 4,482,634 | 25,977,216.41 | 2,167,499.58 |
| 1929-1930..... | 14,610½ | 4,597,731 | 29,113,063.48 | 7,690,529.68 |
| 1928-1929..... | 14,254½ | 4,222,935 | 28,672,496.00 | 10,539,928.46 |
| 1927-1928..... | 13,835 | 3,980,237 | 26,005,138.04 | 9,476,391.32 |
| 1926-1927..... | 12,678 | 3,742,551 | 23,703,436.80 | 9,464,178.93 |
| 1925-1926..... | 11,371 | 3,403,746 | 20,469,960.88 | 8,770,731.05 |
| 1924-1925..... | 10,163 | 2,869,497 | 16,961,560.72 | 7,779,992.55 |
| 1923-1924..... | 9,080 | 2,236,326 | 14,991,535.40 | 8,556,991.27 |
| 1922-1923..... | 6,868 | 1,907,851 | 10,631,838.69 | |
| 1921-1922..... | 4,785 | 1,295,607 | 5,775,122.32 | |
| 1920-1921..... | 3,316 | 802,906 | 4,158,050.15 | |
| 1919-1920..... | 2,736 | 462,651 | 2,800,301.18 | |

(1)—No report this year †—Loss

New Books

The Monetary System of the United States. National Industrial Conference Board, Inc., New York.

THE recent decline in business activity, reorganization of the N.R.A., the failure of prices to rise as fast as the Administration desired, and the absence of much expansion of bank loans, together with certain other disappointing aspects of the New Deal, unite to continue the subject of economic recovery as the chief topic of the day. The number of writers who are trying to explain either the success or failure of this whole experiment is almost legion. Many books are appearing which have been designed to demonstrate the economic fallacies or principles upon which the New Deal is based. Scarcely a single phase of the subject remains untouched in this long list of books. Each of five new books considered here treats some part of the economic recovery program.

No aspect of the New Deal has been more widely discussed or less understood than the principles involved in the monetary policy which has been essentially inflationary from the beginning and remains so to this day. One of the most recent attempts to outline the salient features of this program is by Dr. Ralph A. Young, of the University of Pennsylvania, in *The Monetary System of the United States*. This study outlines the nature and background of the monetary program and sets forth the new plan of monetary management and the problems involved in controlled inflation.

The book is designed to give the arguments both for and against the present monetary policy of the Government. The author states clearly the favorable points and indicates many weaknesses which are inherent in such a program. A very interesting discussion of "controlled inflation" is presented in Chapter IV. The author states clearly some of the objections to such a policy, including its international consequences, which have resulted in a loss of confidence in the United States and which have been accompanied by re-

taliatory measures abroad, intended, in turn, to offset any advantages that might otherwise accrue to this country.

The present situation is depicted as one in which the failure to stabilize currencies and to reach international agreements regarding future monetary policies have contributed to the creation of an "era of monetary instability and controversy." A domestic inflationary program may gain support but it will not settle the issue. It is definitely stated that we may "expect a great era of monetary controversy" the outcome of which is not "even dimly perceptible at present."

The principal conclusions, brought together in Chapter V, will be of great interest to those who are trying to appraise the present monetary policy. It is pointed out that gold has lost part of its importance, and that the future supply of money rests largely with the President. Greater instability, it is held, will be encountered in international currencies which will disrupt the international flow of capital and which will, in the long run, tend to "dry up international trade" and will further act as an "impetus to international friction."

A very useful comparison of the old gold standard and the new monetary system is given in the appendix of the book.

New Frontiers. By Henry A. Wallace. Reynal & Hitchcock, New York.

THE Secretary of Agriculture undertakes in his new book to "condense into broad material objectives the philosophy of the New Deal." He looks upon this volume, "hastily dictated," as an "introduction" to another book, *The Process of Economic Democracy*. It is addressed essentially to the farmer or agrarian class, though such subjects as tariffs, budgets, monetary policies, prices, taxation and other problems are included.

Secretary Wallace feels that the old pioneer spirit of a hundred years ago must be directed in new ways. More up-to-date methods are demanded if

we are to meet successfully the "task of balancing highly centralized economic forces" which exist today. The "keynote of the new frontier is coöperation" as compared with that of earlier days, which was primarily "individualistic competition." This new frontier is essentially mental and spiritual in nature. The "free-booter democracy" has passed, unless we descend to the type of civilization common to the Dark Ages.

The New Deal of President Roosevelt is broad in scope and when, as and if realized, will express itself along the following lines:

1. A job for every one who wants one.
2. Wages high enough to leave no one in serious want.
3. Hours of labor short enough to give everyone time to enjoy life.
4. Adequate insurance against unemployment and old age; perhaps, also, against injury and sickness.
5. Comfortable housing at moderate cost for all.
6. Sufficient planned utilization of the land and other natural resources so that unnecessary depletion by erosion and similar processes will be avoided.
7. Maintenance of such democratic institutions as free speech, free criticism and free conscience.

It is difficult to accept the contention of the Secretary that "farmers suffer more in a time of falling prices than any other class of people." How could the farmers be worse off than the thousands of laborers who were thrown out of employment and forced on the relief rolls of the Government or compelled to accept some form of charity? Moreover, there does not seem to be sufficient proof given to support the statement that "Increasing the price of gold in 1933 got us off the hot spot for a time." What that policy did accomplish apparently was to make business men less certain and more cautious about the future, and that delayed any marked expansion in their business operations.

Mr. Wallace holds that representatives of agriculture, labor, industry and consumers may, "working with the

Books on the New Deal Fill the Reviewer's Table

capitalistic order," be more successful in the future than in the past, and that we will discover a just formula for price and productive policies. Under such conditions the Government must act as a party to, or a reviewer and enforcer of, such action. He sees no hope of restoring the old conditions—they are gone forever; we are faced with new frontiers which are spiritual and mental in their nature. The book has a simple and forceful style and represents a valuable addition to the author's earlier contribution, *America Must Choose*. It deserves careful attention as a statement of the philosophy underlying the New Deal.

The Securities Exchange Act of 1934, Analyzed and Explained. By Charles H. Meyer. Francis Emory Fitch, Inc., New York.

THE failure of the security exchanges to regulate their business, accompanied by the wild orgy of stock and bond speculation during the decade prior to 1930, were underlying factors bringing about the enactment by Congress of two measures—The Securities Act of 1933 and the Securities Exchange Act of 1934—designed to regulate the issue of securities and to control the exchange market where such issues might be dealt in with greater safety. These are important innovations in the field of investment banking in this country and, as such, should be carefully studied by those interested in the issue and marketing of investment securities.

In this book Charles H. Meyer, member of the New York bar and a well known writer on stock exchange practices, has presented in an interesting

and forceful way his interpretation of the provisions of the Securities Exchange Act. The work is divided into two parts: one, the Act of 1934, and two, the 1933 Act as amended in 1934. The author's contribution is found in the analysis of the provisions of these acts. Mr. Meyer wisely cautions his readers regarding the meanings placed upon the provisions of the statutes when he says: "A book on a legal subject cannot give more than the author's interpretation of the law. Particularly is this the case with the Securities Exchange Act, which is sailing uncharted seas."

The volume is clearly and concisely written and gives the facts necessary for many students and bankers who want a workable knowledge of this legislation.

JOHN M. CHAPMAN

*

UNDER the title *The New Deal in Action* (Harper & Brothers, New York), Schuyler C. Wallace describes the activities of the Roosevelt administration in its endeavor to stay the course of the depression, to prevent the proletarianization of large sections of the middle class and to restore that balance of interest fundamental to the proper functioning of our economic order. Equally important, he analyzes the reasoning upon which these efforts are based.

Believing that the imponderables of both politics and economics are such that any attempt to prognosticate the future by logical deduction from the premises of either the classical or Marxian economists is as futile as the logical exercises of the school men, the author again and again declines to prophesy the outcome of the program, continuously taking refuge in the phrase, "time only will tell."

Of quite a different character is *A Short History of the New Deal* (F. S. Crofts & Co., New York) by Louis Hacker. Convinced of the essential soundness of the Marxian analysis, Mr. Hacker finds it impossible to believe that the New Deal ever had a chance to succeed. As he sees it, it is already in a state of collapse. Three possibilities lie ahead—fascism, communism and imperialism. Of these, imperialism seems to Mr. Hacker the most logical course for American capitalism to pursue. After imperialism?—Mr. Hacker refuses to prophesy.

Sez Who?



SWEIGERT IN THE SAN FRANCISCO CHRONICLE

Questions and Answers

THE Wachovia Bank and Trust Company, Winston-Salem, North Carolina, has issued a pamphlet in which it asks banking questions that are of interest to the public and answers them from its own experience. This is another contribution to better customer relations.

Whether the answers agree with other banks' opinions, the questions are those that any customer might ask and the answers are a good beginning toward satisfying customer curiosity. A few examples follow:

Q. Who owns the banks? **A.** All types of people. Banks are not, by any means, the property of the wealthy, as is often supposed. In many cases the capital with which stockholders founded their banks represented the hard-earned accumulation of many years. They assumed the stockholder's risk. That is, if their bank loses money on loans or investments—and no bank is altogether immune from such losses—the money must come out of the bank's earnings,

capital or surplus—the property of stockholders.

Q. What are a bank's duties toward its borrowing customers? **A.** First, it should decide on the basis of its own experience and that of others, what its loan requirements are, and should let them be known frankly and specifically. Then the would-be borrower knows where he stands. He has something definite at which to aim; and he knows that if he is refused a loan it is for a specific banking reason, not because of prejudice. Second, it should be prepared to meet at all times the proper and legitimate credit need of its customers.

Q. Are profits essential to safe banking? **A.** Yes. Only by operating at a profit can a bank add to the reserves which it maintains to guarantee depositors against loss. During recent years all reserves have been greatly reduced. For safety, they must be restored. Any bank which performs its normal credit functions in a community

will sustain some losses on loans and investments. These "write-offs" must be replaced through earnings. Operating costs have increased under the N.R.A. Deposit insurance costs are borne by the banks. A limited demand for commercial loans and the low yield on high grade investments have reduced the earning power of bank assets. At the same time a high standard of service must be maintained. The road to profits is no easy one—even for the most soundly managed bank.

Q. On what basis are directors selected by a well managed bank? **A.** They should be men who are respected in their communities, and of sufficient experience so that when bank matters are brought before them for consideration, their viewpoints will be of real value. In other words, they are *not* figureheads who simply sign their name on the dotted line when told to, without knowing what it is all about. They should be men of integrity, who know the needs of their community, and preferably have successful experience in some particular business, profession or industry, so that when the bank is considering problems in that field, their specialized knowledge can be of particular value.

Q. What are the tests of a good bank loan? **A.** There are three main tests bankers should apply to every proposed loan: 1. It should be good to start with—judged impartially on the basis of the facts, the security offered and the ability to repay. 2. It should be of the short term variety. While full payment of every note at maturity is not always required, a definite schedule of curtailments should be set up and maintained. The longer the debt runs the harder it is to pay. 3. There should be a definite, reliable source of funds to pay off the note. Optimism, hope, expected legacies and speculative profits-to-be are not enough. Reasonable proof of dependable income must be offered.

Q. Are bank credit requirements "stiffer" in times when money is tight than when it is easy? **A.** Requirements should be definite and constant, in good times or bad. It is true, of course, that during depressions not so many loan applicants are able to meet the requirements of a sound loan policy—which creates the impression that the requirements have been tightened.

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FINE PAPERS

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Handling Direct Loans to Industry

ALTHOUGH the twelve regional banks of the Federal Reserve System have so far granted only a moderate volume of credit in the form of direct loans to industry, a considerable amount of routine work is necessary in answering inquiries from prospective borrowers and considering applications, irrespective of loans actually made.

A glimpse at the working of the machinery was recently afforded by William McChesney Martin, governor of the Federal Reserve Bank of St. Louis, in a talk to his city's Scottish Rite Club.

Each application for a direct loan, Mr. Martin pointed out, must come before the industrial advisory committee of the district. This group of experienced business men, familiar with the needs of the community, considers the request and then transmits its recommendations to the Reserve bank. The committee members receive no compensation and they devote considerable time to the work.

"No application is too small," Mr. Martin said, "for the committee's careful, conscientious consideration. Every effort is made to handle applications expeditiously and save the applicant unnecessary work.

"We are glad to receive letters of inquiry or personal visits so that we can go into individual problems. Some inquiries, of course, immediately develop that the applicant is asking for something that has come from a misunderstanding of the law. Where there is any possibility at all we give the applicant a preliminary information sheet and ask that he fill it out. This is short and does not require much work.

"When the preliminary information sheet is received it is analyzed and if there is possibility of a loan then the applicant is given the formal application blank. This is longer than we would like to have it, but after doing a great deal of work and after inquiring from a number of those who used it, we have come to the conclusion that time is saved, both to the applicant and ourselves, if it is fully filled out. When the formal application is received it is presented to the industrial advisory committee for formal action."

In order to handle inquiries as rapidly as possible, the credit department of the St. Louis Reserve bank has worked night after night. Although many of the inquiries have not developed into formal

applications for loans, each inquiry required numerous conferences and an extensive correspondence.

Direct borrowers in the eighth district have included such representatives of industry as: furniture manufacturer, miller, cotton oil company, cooperative seed dealer, manufacturer of floral baskets and other reed products, railroad car maker, pickle manufacturer, clothing manufacturer, baking company,

wholesale grocer, sporting goods and electrical appliances, a coal mine operator and a brewer.

"In making these loans," Mr. Martin said, "it is the sincere effort of the Federal Reserve bank and the industrial advisory committee to be helpful. We do not believe it is expected that we interfere in any way with the management of business and certainly will not do so."



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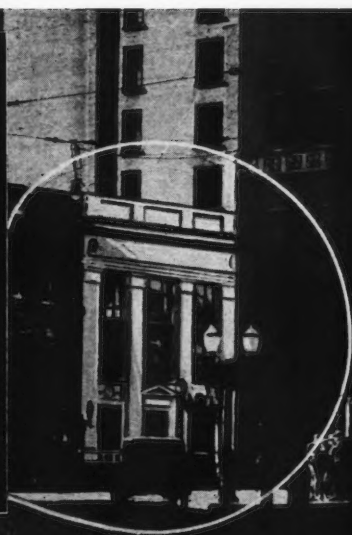
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Readjusting the

THE unequal distribution of the tax load, quite as much as its size, accounts for the difficulty experienced in meeting tax obligations. Ability to pay a tax to one unit of government—Federal, state or municipal—is diminished by the necessity of paying a tax to one or more other units on the same income or other objects of taxation. This, in the opinion of Mark Graves, New York State commissioner of tax-

ation and finance, is the most important problem confronting American taxpayers.

Mr. Graves, expressing his views at the annual convention of the New York State Savings Banks Association in New York City, supported the proposal that states should leave exclusively to the Washington Government the consumption of indirect tax sources.

"This means," he said, "that the

states would discontinue such taxes as the liquor tax, the tax on tobacco and tobacco products and other forms of sales taxes, thereby permitting the Federal Government to occupy exclusively these tax fields, with a division of the proceeds of some or all of them with the states.

"This plan also comprehends that inheritance and personal and corporate income tax fields should be occupied by both the Federal and the state governments, accompanied, however, with a crediting device pursuant to which the national Government would credit against its tax up to at least 50 per cent thereof similar taxes paid to the states."

Adoption of such a plan would mean, Mr. Graves pointed out, that the Federal Government would lose more than it gained, in which case a general manufacturers sales tax is indicated as necessary. The rate of this tax and whether there should be a division of the proceeds with the states are questions to be determined. State sales taxes have increased in number, but they are not adapted to state uses, principally because sales in interstate commerce cannot be taxed by the state in which either the seller or the buyer lives. It follows that the general effect of a sales tax is



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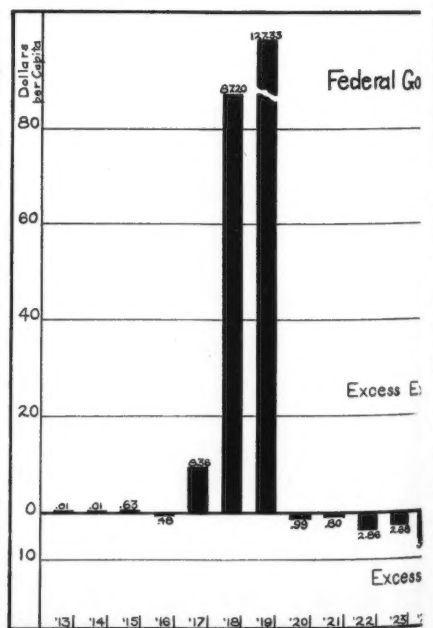
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to drive business out of the enacting jurisdiction.

The difficulties involved in the present system of over-lapping tax boundaries are inherent in the Federal system of government; if each of the three major units seizes upon the source of revenue which at the moment is most readily available the taxpayer becomes the "goat".

"The time has come," said Mr. Graves, "when in the interest of the common good the Federal Government should not occupy exclusively a field of taxation to which the states and their localities have a just claim. Conversely, the states and their localities should not appropriate an undue share of revenue without regard for the requirements of the central government."

With respect to his suggestion that the Federal Government allow a credit against its personal and corporate income taxes for similar taxes paid to the states, Mr. Graves said the credit against the Federal personal income tax should be for all taxes paid by the taxpayer excepting only the tax on his real estate. Similarly, in the case of corporations, he advocated that the credit be allowed for any tax or license fee paid by the corporation other than levies on real property.

"That the tax problems of the country—Federal, state and local—are serious and difficult of solution, no one will deny," said Mr. Graves. "The reasons are obvious. When the national income approximated 90 billion dollars it was not difficult for the American people to pay taxes aggregating 10 billion. When, however, the national income dropped to 40 or 45 billion, the impact of a 10 billion tax bill for the purposes of gov-

ernment became decidedly more pronounced. It is, therefore, of the utmost importance that we recover from the business depression. . . .

"A contributing factor toward our present difficulties—and it is by no means insignificant—is that during prosperous times we established a standard of governmental living beyond the capacity of the people to support in depression times."



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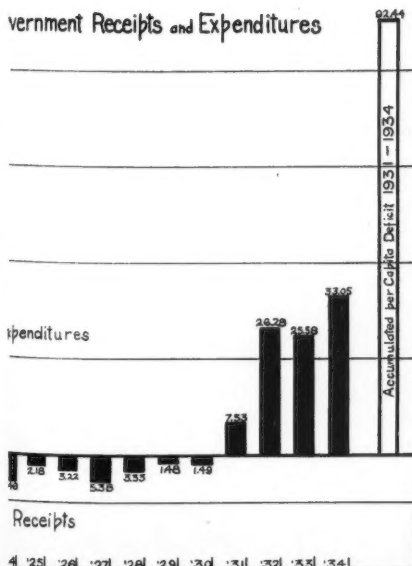
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Government Receipts and Expenditures



November 1934

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SHORT TERM NOTES

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**Do Your Directors
Read BANKING?**

Idle Shipping

THE fact that each depression period in the shipping industry has been followed by years of great activity and prosperity encourages *Lloyd's Register* to hope that the near future will witness a return to "a reasonable measure" of good times for the merchant carrying trade.

There is at present an unwieldy excess of idle tonnage, amounting to some 8,000,000 tons, notwithstanding a reduction of 4,000,000 unemployed tons during the past year. Total world tonnage is now estimated at 65,000,000 as compared with 70,000,000 tons reported for

1931. The gross is still far above that for the pre-war period; in 1914 the figure was 49,000,000 tons.

The current volume of idle tonnage, says Lloyd's, "forms a terrible dead weight on the freight market, although quite an appreciable proportion of it is not only unemployed but economically unemployable under existing conditions." Efforts are still being made to reduce the redundant tonnage by means of breaking up ships, and since June 1933 nearly 3,000,000 tons of shipping have been retired by deliberate demolition, casualty or the elements.

Some increase in shipbuilding has recently been noted, though confined chiefly to the passenger trade, oil tankers and vessels designed for other special services. In the year ended June 30 Lloyd's classified 192 vessels registering 350,430 gross tons, the smallest amount on record. British and Irish yards built 136,072 tons of this total.

Lloyd's has been classifying merchant tonnage for 100 years, the *Register* making its first appearance in October 1834 as a representative of underwriters, merchants and shipowners, though it had appeared in other capacities as far back as 1760.

Bandits Show Sense for Dollars

They don't usually risk being surprised by police summoned through silent Padua Foot Units. They show sense by going after unprotected dollars in banks not so well protected. Ask us how to get Padua protection.



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Statement of Ownership

STATEMENT OF THE OWNERSHIP, MANAGEMENT, CIRCULATION, ETC., REQUIRED BY THE ACT OF MARCH 3, 1933, OF BANKING, published monthly at New York, N. Y., for Oct. 1, 1934.

I, State of New York, county of Bronx, ss. Before me, a Notary Public in and for the State and county aforesaid, personally appeared L. E. Lascelle, who, having been duly sworn according to law, deposes and says that he is the business manager of BANKING and that the following is, to the best of his knowledge and belief, a true statement of the ownership, management (and, if a daily paper, the circulation) etc., of the aforesaid publication for the date shown in the above caption, required by the Act of March 3, 1933, embodied in section 537, Postal Laws and Regulations, printed on the reverse of this form, to wit:

¶1. That the names and addresses of the publisher, editor, managing editor, and business managers are: Publisher, F. N. Shepherd, 22 East 40th Street, New York, N. Y.; editor, F. N. Shepherd, 22 East 40th Street, New York, N. Y.; managing editor, William R. Kuhns, 22 East 40th Street, New York, N. Y.; business manager, L. E. Lascelle, 22 East 40th Street, New York, N. Y.

¶2. That the owner is: (If owned by a corporation, its name and address must be stated and also immediately thereunder the names and addresses of stockholders owning or holding one per cent or more of total amount of stock. If not owned by a corporation, the names and addresses of the individual owners must be given. If owned by a firm, company, or other unincorporated concern, its name and address, as well as those of each individual member, must be given.) The American Bankers Association, 22 East 40th Street, New York, N. Y. (A voluntary unincorporated association of banks: Francis Marion Law, First National Bank, Houston, Texas, President, and F. N. Shepherd, 22 East 40th Street, New York, N. Y., Executive Manager.)

¶3. That the known bondholders, mortgagees, and other security holders owning or holding 1 per cent or more of total amount of bonds, mortgages, or other securities are: None.

¶4. That the two paragraphs next above, giving the names of the owners, stockholders, and security holders, if any, contain not only the list of stockholders and security holders as they appear upon the books of the company but also, in cases where the stockholder or security holder appears upon the books of the company as trustee or in any other fiduciary relation, the name of the person or corporation for whom such trustee is acting, is given; also that the said two paragraphs contain statements embracing affiant's full knowledge and belief as to the circumstances and conditions under which stockholders and security holders who do not appear upon the books of the company as trustees, hold stock and securities in a capacity other than that of a bona fide owner; and this affiant has no reason to believe that any other person, association, or corporation has any interest direct or indirect in the said stock, bonds, or other securities than as so stated by him.

¶5. That the average number of copies of each issue of this publication sold or distributed, through the mails or otherwise, to paid subscribers during the month preceding the date shown above is:—(This information is required from daily publications only.)

L. E. LASCELLE,
Business Manager.

¶Sworn to and subscribed before me this 25th day of September, 1934.
¶Elizabeth Rautanen, Notary Public, Bronx County, New York Co. Clk's No. 274, Reg. No. 6R145; Bronx Co. Clk's No. 21, Reg. No. 24R36. Certificate filed in Westchester County.
¶(Appointment expires March 30, 1936.)

Reserve Membership

Advantages for Small Banks

To the Editor:

MANY country bankers with whom I have discussed membership in the Federal Reserve System have raised certain objections.

Some of these bankers look upon the Federal Reserve as too dictatorial. While it is true that banking legislation loomed large in importance when Congress met in June 1934 and that broad powers were given to the Federal Reserve banks, this action has been in many instances an attempt to correct the ills existing in banks and to guard against a reoccurrence of the situation confronting banks prior to March 1933.

Among the many objections brought out against membership in the Federal Reserve System was the fact that members were required to maintain a reserve account equal to 7 per cent of their demand deposits and 3 per cent of their time, or savings, deposits, upon which no interest was allowed. This 10 per cent of cash held in reserve appeared unfair to some non-member banks of the System. The required purchase of Reserve bank stock equal to 3 per cent of capital and surplus has been objected to. An investigation of this investment will reveal that owning stock in the Federal Reserve System is profitable to any bank.

Still other objectionable features to membership were reported to be the number of detailed reports of the financial condition of institutions within its membership and the requirement of financial statements from borrowers in order to keep member banks' notes eligible for rediscount. Time and the holiday period has borne out the fact that members have obtained many advantages through complying with this requirement. During the banking crisis member banks were enabled to secure shipments of currency by sending in to the Federal Reserve banks eligible paper for rediscount. Non-member banks had to depend on their correspondent banks for this service.

The beginning of this feeling against membership in the System arose in connection with exchange collection. For a number of years bankers had been receiving exchange on cash letters sent to them from other banks. Small

banks had a distinct advantage over some of the larger ones who did not make an exchange charge against customer banks, while the small banks did charge the larger ones. In small communities having one bank the rate of exchange was determined by the individual banker, and in many instances it was exorbitant. Doubtless a substantial cut was made in profits when this exchange charge was prohibited and items were cleared through the Federal Reserve banks at par. There is perhaps here sufficient grounds for non-members to criticize the action of the Federal Reserve for eliminating this source of revenue, but at the same time these same bankers had the privilege of joining the System and obtaining the advantages offered by the Reserve collection system. If these banks had become members and made use of the facilities offered, they would have been able to clear checks at par through the Federal Reserve at a saving of time and money which would have partially compensated them for the loss of exchange on cash letters.

The Federal Reserve Act was passed December 23, 1913, to correct the defects in the old banking system, brought to light during the panic of 1907. Defects existing during the period before the Federal Reserve banks were created were both dangerous and expensive to American banks. To begin with, there was no central reserve holding agent, and reserve funds were scattered in small lots, without an adequate means for concentrating them at points where they were needed. Funds in banks were hoarded, since bankers knew that they would have to depend on their own resources in crises.

Credit was curtailed because of a lack of available funds. A bank would lend only a portion of the amount held on deposit since reserves were held in cash and it was not possible to negotiate loans in times of stress. Today members of the Federal Reserve System may continue to make loans beyond any specified amount from funds received through rediscounting eligible notes at the Federal Reserve bank.

GEORGE R. SMITH

Assistant Cashier
Commercial National Bank
Demopolis, Alabama



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Single Rooms with Bath \$4 up
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WASHINGTON, D. C.

H. P. Somerville, Managing Director

Saving Taxes through Living Trusts

By PAUL P. PULLEN

The author is manager of business development of the Chicago Title and Trust Company

TAXPAYERS have become so accustomed to seeing themselves portrayed in the rôle of "the forgotten man" and caricatured as the meek and lowly citizen who always pays and pays, that when they are given an infrequent advantage they fail to recognize it.

In shaping the 1934 Federal Revenue Act, Congress deliberately gave to all prospective payers of estate taxes the option of paying a large tax at death or of paying a somewhat smaller tax during life. In fact, the Government gave its citizens two options: one, if the tax is incurred during the current year and another less advantageous option if it is incurred after January 1, 1935.

In effect, the framers of the estate tax legislation said this to property owners:

"If you die while the present estate tax law is in effect, you must pay a tax of from 1 per cent to 60 per cent, depending on the value of the property which you leave. If you give this property away during your lifetime, you still must pay a tax, but at a considerably lower rate. Furthermore, we will give you the rest of this year (1934) to make up your mind, and if you do not decide to do it before the last of December, you must pay an increased amount. But to induce you to make your gift and pay your tax now, we have made the gift tax rate only 75 per cent of the death tax rates. So do it now and save money."

It is not necessary, of course, to make an outright gift in order to take advantage of this discount offer of the Government. A gift in trust, if it falls within the legal definition of an irrevocable trust, is classed as an outright gift for tax purposes.

Since the state inheritance and estate tax laws vary widely, the savings to be effected will also vary. All but one state and the District of Columbia have death tax laws. At this time all but eight of the states and territories have inheritance tax laws. Thirty-eight states and territories have estate tax laws. Thirty-two jurisdictions have both inheritance and estate tax laws.

Now, what type of living trust is necessary to effect the maximum amount of tax saving?

The revenue act provides definitely that transfers in trust are exempt from the Federal estate tax only if they are not made in contemplation of death, and that if such transfer is made by the decedent within two years prior to his death, and is not for an adequate consideration, it is deemed, unless shown to the contrary, to have been made in contemplation of death.

The act further provides that transfers in trust are exempt from Federal estate taxation only in cases where the creator of the trust gives up all right to alter, amend or revoke the trust and does not reserve to himself any income from the property.

In other words, the trust must not be made in contemplation of death; the donor must give up any claim to present or future income from the property; and he must also give up all right to repossess himself of the assets of the trust, to redesignate the beneficiaries or to reapportion the interests which any of them are to receive.

It would appear from these requirements that such a trust, to escape tax-

tion, must be absolutely irrevocable. This is true so far as the donor of the trust alone is concerned. However, under a decision of the United States Supreme Court a trust is held to be irrevocable within the meaning of the act if it is subject to alteration, amendment or revocation by the donor only with the consent of the beneficiary having a substantial adverse interest in the trust.

Thus a trust under which the income is payable to the wife of the donor during her life, and thereafter the principal is payable to one or more adult children, might be revocable by the donor with the joint consent of his wife and any adult child beneficiary and still be free from Federal estate taxes at the death of the donor or any of the named beneficiaries.

Such a trust, of course, would be subject to the Federal gift tax, but, even so, a substantial saving would result from the creation of the trust. Let us take as an example a resident of Illinois having present assets of \$850,000. An irrevocable trust of that amount created now would entail the payment of a \$67,125 gift tax. If the trust were

It rests with the trust companies and trust departments of banks to do a three-fold service between now and the end of this year: First, to themselves through the creation of a volume of profitable living trust business; second, to their customers through a substantial saving in inheritance and estate taxes; third, to the Government through bringing in tax revenue when it is most needed.

NOVEMBER✓

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DECEMBER✓

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There are two excellent arguments to present to the person of means for creating a present trust: one is the ultimate saving to be effected in inheritance and estate taxes, and the other is the saving to be effected by creating the trust now, before the new gift tax rates begin on January 1, 1935.

deferred until after January 1, 1935, however, the gift tax, payable the following year, would amount to \$98,700. Thus there would be a saving by creating the trust now of \$31,575 or 47.04 per cent.

Suppose, however, that no trust was created during the life of this man and that at the time of his death his gross taxable estate amounted to \$850,000, all bequeathed to his wife. Under the present tax laws of Illinois there would be an inheritance tax of \$82,200; against the Federal estate tax of \$131,600 there would be a credit for inheritance taxes paid up to 80 per cent of the tax due under the 1926 Federal Revenue Act. This credit, amounting to \$25,200, would reduce the net Federal estate tax to \$106,400. Thus the total Illinois inheritance and Federal estate taxes due on this \$850,000 estate would total \$188,600, or 22.19 per cent of the whole estate. If these death taxes of \$188,600 are compared with the gift tax of \$67,125 which would have been paid if a trust had been created during 1934, it will be seen that such a trust would have resulted in a saving of \$121,475, or 64.41 per cent.

Until the effective date of the 1934 revenue act it was possible to shift the income tax burden under a living trust without an income reservation and still retain a large measure of control over the trust property by providing that the trust might be revoked by the creator alone upon two notices not given in the same taxable year. This income tax shift was particularly advantageous to persons receiving very large incomes, since, under such a trust, the tax would be assessed against either the beneficiary or the trustee, depending on whether the beneficiary received the income outright or whether it was accumulated in the hands of the trustee.

While it is no longer possible to re-

tain the same amount of control over a living trust created for income tax saving purposes, nevertheless it is possible, through the creation of one or more irrevocable trusts for the benefit of various adult members of the family, so to diversify the income among them that the donor will be relieved of part of the surtaxes on the highest brackets of his income. Even though such a trust would be subject to a gift tax, the annual saving in taxes on large incomes would far offset this.

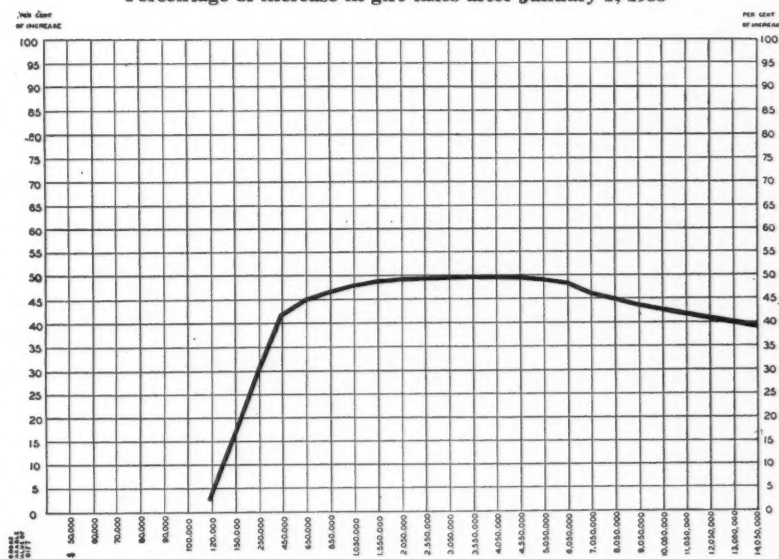
A life insurance trust may be considered in the same category as a living trust in so far as the tax features are concerned. That is, in order to render life insurance proceeds in excess of \$40,000 exempt from the Federal estate tax it is necessary that the insured give up all incidents of ownership.

Should any one feel any qualms of conscience regarding the ethics or legality of the creation of trusts to effect tax savings, let him refer to the United States Supreme Court case of *Bullen vs. Wisconsin*. The court stated:

"We do not speak of evasion, because, when the law draws a line, a case is on one side of it or the other, and if on the safe side is none the worse legally that a party has availed himself to the full of what the law permits. When an act is condemned as an evasion, what is meant is that it is on the wrong side of the line indicated by the policy if not by the mere letter of the law."

In the fact alone, that the Government has offered prospective estate tax payers an opportunity to save 25 per cent lies full justification for the creation of a present trust.

Percentage of increase in gift taxes after January 1, 1935





AERIAL EXPLORATIONS

Home Modernizing and the Banks

ELSEWHERE in this issue, **BANKING** reports the formation in the past few weeks of 2,280 local organizations, in many instances headed by bankers, to push to a successful conclusion the Government's program for the renovation of homes.

LOANS by banks for this purpose are already running at a rate in excess of \$30,000,000 a month.

EACH month living standards in more than 50,000 homes are improved as a direct result.

WORKERS and employers in the durable goods industries are benefiting and will continue to benefit from this flow of credit.

BANKING
JOURNAL OF THE AMERICAN BANKERS ASSOCIATION



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BROWN IN THE NEW YORK HERALD TRIBUNE

CONVENTION CALENDAR

State Associations

- Nov. 2-3 Arizona Bankers Association,
Hotel El Tovar, Grand Canyon
- Nov. 8-9 Nebraska Bankers Association,
Lincoln
- Nov. 16-17 Florida Bankers Association, St.
Petersburg
- May 7-8, Oklahoma Bankers Association,
1935 Oklahoma City

Other Groups

- Nov. 1-2 American Institute of Actuaries,
Chicago, Illinois
- Nov. 8-9 Twelfth Regional Conference of
the Associated Trust Companies
of the Pacific Coast and Rocky
Mountain States, San Francisco,
California
- Nov. 12-14 National Association of Securi-
ties Commissioners, New Orleans,
Louisiana
- Nov. 12-15 Federation of Mutual Fire In-
surance Companies, Savannah,
Georgia
- Nov. 19-21 Association of National Adver-
tisers, Atlantic City, New Jersey
- Nov. 22-23 Mid-Winter Trust and Banking
Conference, New Jersey Bankers
Association, Hotel Robert Treat,
Newark, New Jersey

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HIEROGLYPHICS ARE OLD-FASHIONED

Banks have made considerable progress lately in developing clear, understandable statements



COURTESY METROPOLITAN MUSEUM OF ART

Fifty-Six Million Depositors

ONE of the important movements in banking during the past few years has been the renewed effort toward evolving a more complete and informative bank statement.

Many banking institutions have already gone far in this direction, especially since the late boom period. Up to that time bank statements, with their broad listings of assets and liabilities, presented a clear picture to business men and other banks, but remained something of a mystery to the smaller depositor. As the depression grew, numerous banks found it advisable to include more information in their statements, and this practice has grown.

Although the movement has obtained momentum in the last five years, it is not of such recent origin. The Committee on Public Education of the American Bankers Association prepared in 1921 a paper on "What Bank Statements Mean", designed for the use of speakers on the general subject of banking's public relations. This article stated that the financial condition of banks was "a matter of public concern"; it also gave a detailed exposition of the meaning of the general items to be found in the statements.

But the matter of fuller publicity received careful consideration prior to that time. In this connection, it is interesting to recall the program adopted by one upstate New York bank in 1913, although it must be admitted that most banks would not care to undertake so ambitious a piece of public relations.

Ten pages of newspaper space, printed in the *Schenectady Gazette* of February 26, 1913, were used by the Schenectady Savings Bank to tell its depositors and

The Public Relations Aspect of Bank Statements

friends the full story of its condition. At that time bank statements generally were more or less perfunctory compilations of assets and liabilities, to which were added the names of officers and directors. But the Schenectady bank broke away from tradition with a bang. In one full section of the newspaper it published not only its condensed condition statement, but gave the detailed story of its affairs.

Under "resources" it listed each bond in the portfolio, with the payable date, coupon rate and amount held. It tabulated, by book number, the amount of every mortgage. And then — most striking of all — it printed the pass book number and the balance of each of the 30,988 open accounts as of January 1, 1913. This tabulation began on page 12 of the paper and was concluded near the end of page 19. The pages were full size, eight columns wide.

The amount of work involved was so substantial that the bank took pains to explain how the task was done.

"A special abstract," it said, "of all the assets and liabilities of the bank is made on January 1, 1913, which includes the interest credited to depositors on that date. The eighty-four balances of that number of depositors' accounts are, by the adding machine operator, drawn off with the number of each account, from the depositors' ledger. Six of such columns of eighty-four accounts

make a newspaper galley. The total of the six columns of balances is struck by the adding machine. Thus forming what the printer calls a 'galley' or a column in the newspaper.

"After printing a galley from our six columns, the printer sends both to the bank. The adding machine operator then draws off the second time from the ledger, the numbers of the six columns of accounts contained on the sheets and the machine strikes the total. The operator then draws off from the printer's 'galley' the same number of the accounts and strikes their total, which should agree with the total of the numbers as they were drawn off the second time from the ledger and footed by the machine. Then the operator draws off from the printer's 'galley' opposite its corresponding number, each balance, striking the total which should agree with the total of the account balances drawn from the ledger. While the numbers and balances of accounts can both be drawn off at any time by the adding machine, only one total is struck, and that on the right hand of the machine.

"Thus it will be seen that full proof is made of every item which makes the total amount due depositors. All of the assets are proved likewise."

With pardonable pride, the bank added:

"We have not copyrighted this detail statement, but as the idea originated in this bank, we ask as a matter of courtesy that banks making use of the idea credit this bank accordingly."

Introducing the statement was the usual roster of officers and trustees. But the bank went even further: it listed all members of the staff, down to the messenger, the janitor and his assistant.

